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Power at last

How the internet means the consumer really is king (and queen)

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Print Edition | April 2nd 2005

Power at last
Armed with the internet, the customer has finally got on top ... More on this week's lead article

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Obituary
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Politics this week

Mar 31st 2005
From The Economist print edition

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The troubled UN

A committee investigating the UN's oil-for-food scandal cleared **Kofi Annan**, the organisation's embattled secretary-general, of impropriety in the award of a multi-million dollar UN contract to Cotecna, a company for which his son, Kojo, worked. But it castigates his son for lying about his role in the affair and leaves many questions unanswered.

See article

Iraq's parliament, elected two months ago, met for the second time, in anger and disarray. Leaders of the main parties again failed to form a coalition government, since they could not agree to a division of ministerial posts. But they apparently agreed, amid claims that the insurgency had begun to abate, to set aside differences over the disputed city of Kirkuk.

See article

In **Lebanon**, too, the latest presidential nominee to form a coalition government, Omar Karami, continued to fail in the face of opposition from MPs who say he is too pro-Syrian. Meanwhile, **Syria's** president, Bashar Assad, said he would remove all his troops from Lebanon before a general election due there in May.

See article

Israel's prime minister, Ariel Sharon, got his parliament to endorse next year's budget and fended off rebels within his own Likud party who had demanded a national referendum on his proposed removal, this summer, of Israeli troops and Jewish settlers from the Gaza strip.

Calling his opponents “traitors”, President Robert Mugabe of **Zimbabwe** promised that his party would win a landslide in national elections on March 31st. His opponents said he was planning to rig the result, and that observers from friendly African countries would rubber-stamp it.

The United Nations Security Council approved mild sanctions against those carrying out ethnic cleansing in Sudan's **Darfur** region. A British parliamentary report put the death toll from the conflict there at 300,000.

See article

The Rwandan Hutu rebels in **Congo**, who have been at the centre of most big wars in central Africa since the genocide of 1994, said they would lay down their arms and become a political party.

A frightening reminder

Getty Images

A powerful **earthquake**, thought to be an aftershock from the one that caused the Indian Ocean *tsunami* last December, struck Sumatra in Indonesia. Several hundred people were feared dead on remote islands off its coast.

See article

The interim government warned ex-president Askar Akaev not to return to **Kirgizstan**. He fled on March 24th. A presidential election is planned for as soon as June 26th.

See article

Activists in **Mongolia**, inspired by events in Kirgizstan, demanded new elections.

A huge rally, involving hundreds of thousands, was held in Taipei to protest at China's passing of a law threatening **Taiwan** with war if it attempts to declare independence.

See article

Shops and businesses across **India** shut to protest against a new value-added tax.

Bhutan unveiled a draft constitution that aims to transform the Himalayan country's absolute monarchy into a two-party democracy.

Covic cornered

Lord Ashdown, international overseer of **Bosnia**, sacked the Bosnian-Croat president, Dragan Covic. Mr Covic, who is one of three heads of state in Bosnia (one for each ethnic group), is being prosecuted on corruption charges.

The **Czech government** lost its parliamentary majority after the withdrawal of the Christian Democrats from the ruling coalition. It may now have to rely on legislative support from an unreconstructed Communist Party.

Turkey announced in a letter to the European Commission that it would sign a protocol extending its customs union to the ten new European Union members, including Cyprus. The Turks insist this does not imply recognition of the Greek-Cypriot government.

More consternation in France's political class: a fifth opinion poll in less than two weeks pointed to a no vote in the referendum on the **European Union constitution** to be held on May 29th.

The ailing **Pope John Paul II** appeared but could not speak at the usual Easter celebrations in Rome. He is now being fed through a nasal tube.

The end

Nearly two weeks after her feeding tube was removed, Terri Schiavo died. Last-minute appeals to reinsert the tube into the severely brain-damaged woman were rejected by the Supreme Court.

See article

Paul Wolfowitz's nomination as head of the World Bank was expected to be approved at a meeting in Washington, DC. Earlier, on a visit to Brussels, Mr Wolfowitz assured the European Union's development and finance ministers that eradicating poverty would be his top priority.

See article

The Government Accountability Office, Congress's investigative arm, issued an interim report that criticised a new airline **passenger-screening** system for not adequately protecting privacy.

The Department of Homeland Security announced that it was sending 500 extra guards to patrol the **Arizona-Mexico border**. The decision came just before a group of volunteer "Minutemen" were due to rally at the 370 mile (590km) border in response to what they call the "careless disregard" of security.

Arms and the man

AFP

In a visit to Latin America, Donald Rumsfeld, the American defence secretary, criticised recent arms purchases by **Venezuela's** leftist government. Venezuela's president, Hugo Chávez, hosted a meeting at Ciudad Guayana with Spain's prime minister and the presidents of Brazil and Colombia. They said they would join forces to fight poverty, terrorism and drug trafficking but said their alliance was not against the United States.

Brazil's government said it would not seek a new agreement with the IMF to replace one that expired at the end of March. Officials said the Fund's support, which began in 1998, was no longer necessary because of the country's strong economic performance.

Canada's government promised a further C$1 billion ($826m) in aid to the cattle industry, which has suffered a ban on exports to the United States because of three cases of mad-cow disease. The industry has already received C$2 billion over the past year.

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Business this week

Mar 31st 2005
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Knocked of their pedestals

Warren Buffett, boss of Berkshire Hathaway, agreed to meet regulators investigating a reinsurance contract between **AIG**, an insurance group, and General Re (a unit of Berkshire Hathaway), which is at the centre of probes into AIG's financial and insurance practices. The legendary investor says he did not have detailed knowledge of the transaction. Meanwhile, Maurice "Hank" Greenberg stepped down as chairman of AIG, two weeks after leaving the post of CEO.

See article

Rumours continued to circulate about the future of **Morgan Stanley's** chairman and chief executive, Philip Purcell, after three top executives quit the investment firm. A group of former Morgan Stanley executives are actively seeking Mr Purcell's resignation and have circulated a letter describing a "crisis of confidence" in management.

ABN Amro, a Dutch bank, launched a *euro*6.3 billion ($8.2 billion) bid for **Banca Antonveneta**, an Italian bank—the second challenge to Italy's fetters on foreign ownership of its banks in two weeks.

ING, a large financial group based in the Netherlands, said it was taking a 19.9% stake in the **Bank of Beijing**.

Technological leap

SunGard Data Systems confirmed that it is to be bought by a consortium of private-equity firms in a deal worth $11.3 billion—the biggest private-equity deal since 1989. SunGard makes integrated software that is used by big financial-services firms.

See article

Verizon increased its offer to buy **MCI**, America's second-biggest long-distance telecom, to $7.6 billion. MCI's board of directors accepted the sweetened deal (having said yes to Verizon's previous offer of $6.75 billion). But shareholders have yet to approve. MCI's other suitor, **Qwest**, based in Denver, is expected to improve its (already larger) cash and stocks offer again.

America's Supreme Court heard a case brought by the entertainment industry against **peer-to-peer (P2P)** technology, which facilitates the swapping of music and movie files over the internet.

See article

Freddie Mac reported a 42% drop in net profit for 2004. The mortgage giant has faced regulatory probes into its accounting procedures.

An American judge granted a preliminary injunction against the sale of generic versions of Accupril, a blood-pressure medicine made by **Pfizer**. Pfizer brought a patent-infringement suit against Teva Pharmaceuticals, based in Israel, and Ranbaxy Laboratories, based in India, which co-operated in launching their own version of the drug.

General Motors announced that Phil Murtaugh, its veteran head of operations in China, is retiring "for personal reasons". China has been one of the few recent success stories for GM—but sales have slowed this year. Kevin Wale, chairman of GM's British operations and vice-president of GM Europe, replaces Mr Murtaugh.

See article

Where there's muck

Goldman Sachs Capital Partners, a private-equity firm, and EQT, a venture-capital firm, agreed to buy **ISS**, the world's largest cleaning-services company (based in Denmark) for DKr22 billion ($3.8 billion). ISS employs over 270,000 people and operates in 40 countries, offering a range of services from pest control to landscaping.

Blockbuster, America's largest video-rental chain, abandoned its bid to buy rival Hollywood Entertainment. The deal (worth around $990m) was halted by the possibility that the Federal Trade Commission would block it on antitrust grounds.

Walt Disney announced that Bob and Harvey Weinstein are to step down as co-chairmen of **Miramax Films** in September. The brothers have run Miramax for 26 years. In 1993 it was acquired by Disney, leading to a sometimes fraught relationship with Michael Eisner, Disney's current CEO, who is also stepping down in September.

Hewlett-Packard named Mark Hurd as its new chief executive. Carly Fiorina was ousted from the post in February. Mr Hurd is currently the CEO of NCR, a maker of cash dispensers and sales-tills.

See article

Oil prices dipped to below $53 a barrel as America's increase in stocks of crude oil for last week beat all estimates. Prices had risen sharply after an explosion at a BP refinery in Texas on March 23rd. The markets were also jittery following OPEC's decision to delay a second announcement (following a first decision in March) to increase production.

Property market

America's Department of Commerce reported that sales of **single-family houses** in February were at a seasonally adjusted annual rate of 1.23m. The increase on January, of 9.4%, was the biggest monthly rise since December 2000.

US new-home sales
Seasonally adjusted at annual rate, m
1.30
1.25
1.20
1.15
1.10
1.05
F M A M J J A S O N D J F
2004
2005
Source: Department of Commerce

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Letters

Mar 31st 2005
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Developing mobility

SIR – You report the strong link between private investment in mobile networks and economic growth in the developing world ("The real digital divide", March 12th). I agree with your conclusions, but also draw your attention to the critical role governments and regulators play. In many parts of the developing world, the enormous potential of mobile networking is not being realised thanks to excessive import duties on phones and network equipment. Moreover, cross-subsidies from mobile-network operators to state-owned fixed operators and industry-specific taxes leave little free cash for further investment.

However, when the investment environment is right, mobile services can change millions of lives. One of the key roles of government is to work with the mobile industry and foreign investors, to develop programmes that build a sustainable, domestic ecosystem around mobile networks. Perhaps only in this way will governments have the confidence to reduce the tax burden on foreign imports.

Craig Ehrlich
GSM Association
London

SIR – Mobile phones may be good for the poor, but your enthusiasm ought to be tempered by the cost of making calls. In many African countries, one minute of talktime costs 30 cents—not cheap. The regulators appear to have failed to bring down costs through competition. Witness Tanzania, where three providers tend to offer gimmicks rather than real discounts. You would have done better by compiling a survey of costs and explaining what it takes to bring them down.

Rakesh Rajani
Dar es Salaam, Tanzania

SIR – Pushing for poor countries to open up their telecoms markets doesn't mean that the poor will automatically have access to a mobile network. Mobile providers also need incentives to roll out their services to rural and less profitable areas. For example, in Uganda, mobile-network providers cite a lack of infrastructure for not establishing services in some areas. The digital divide is no longer about whether or not a rural farmer has an online connection in his hut, but is part of the overall development divide: improving the quality of rural peoples' lives relies in part on access to, and the use of, new technologies to communicate. Basic infrastructure, such as proper roads and electricity, are required to make these technologies work. The actual divide is between those with this infrastructure, who can make use of digital technologies, and those without.

Murali Shanmugavalen
London

Public goods

SIR – Thank you for questioning the right of those municipalities that get involved in building universal internet-access through Wi-Fi networks in cities and for highlighting the plight of those poor technology-firms that feel they are being put at a disadvantage ("Wi-Fi pie in the sky", March 19th). While you're at it, why don't you question the right, and indeed the viability, of the public sector in overcoming the huge practical and philosophical obstacles associated with piping water into peoples' homes when those poor, hard done by, bottled-water companies could do such a better job.

Eamonn Gormley
San Francisco

Two sides to pre-emption

SIR – It is unlikely that a unified international effort and sanctions will deflect Iran from its pursuit of nuclear weapons ("A grand bargain with the Great Satan?", March 12th). The invasion of Iraq showed that America is willing to use force to overthrow regimes it dislikes; the post-invasion insurgency means that further invasions are now unlikely. It is rational for Iran's leaders to believe that the surest way to maintain their hold on power is to take advantage of the current window of opportunity and secure a nuclear deterrent. The United States cannot expect both to maintain a threat to overthrow unsavoury regimes and to have those regimes refrain from pursuing the technology that might deter forcible regime change.

Alex Weisiger
New York

Weapons at work

SIR – I object to your use of the derogatory term "gun nuts"("Loaded debate", March 12th). Most of the gun-rights individuals of whom you speak are honest, law abiding people who simply care about their civil rights. People who choose to carry personal defence weapons have committed time, energy and money to learning about the numerous firearms laws in their respective states and have undergone training. They also carry identification that proves they have no felony arrests or mental problem. This cannot be said of the rest of the people with whom one works.

Kenneth Orce
New York

SIR – Why not cut out the middleman? All a business has to do is institute a company policy that prohibits employees from murdering each other on company property. Problem solved. And you can still keep your gun in your car.

James Heimer
Houston

SIR – Your debate over allowing weapons in office car-parks missed a key issue, which is whether employers may abrogate their employees' right to self defence when travelling to and from work. It is a reasonable assumption that miscreants will not be swayed by such a ban. The practical effect is to limit employees' self-defence options— problematic if one works the late shift in an unsafe part of town. By the way, to my wife and two daughters, "gun nut" is a term of endearment.

Mark Gobel
West St Paul, Minnesota

Helpful Canadians

SIR – You describe the Canada Corps as an “idea being touted” (“Unguided missiles”, March 5th). I can assure you that this programme, which sends Canadian experts and youth overseas to help with development challenges, is very real. Ask the nearly 500 Canada Corps participants who recently returned from observing Ukraine's election.

Aileen Carroll
Minister of International
Co-operation
Ottawa, Canada

Beasts of burden?

SIR – Elephants have no natural predators (“Mulling a cull”, March 19th). Given their protected status, it is only a matter of time before their impact on the environment of Kruger National Park becomes unsustainable; they will soon run out of food and water because of drought. The choice is stark: control by culling, or a slow death from starvation.

Anton Thompson
Johannesburg

Free as a bird

SIR – Birds are the ultimate expression of liberation and freedom, which may explain why so many Britons “twitch” when watching them (“Starling-struck”, March 19th). Japanese men trapped in the corporate world, when surveyed, have indicated that in their next life they would most like to return as a bird.

Bill Ogilvie
Bathurst, Australia

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Consumer power

Power at last

Mar 31st 2005
From The Economist print edition

Armed with the internet, the customer has finally got on top

"WHEN a customer enters my store, forget me. He is king," decreed John Wanamaker, who in 1876 turned an abandoned railway depot in Philadelphia into one of the world's first department stores. This revolutionary concept changed the face of retailing and led to the development of advertising and marketing as we know it today.

But compelling as that slogan was, in truth the shopper was cheated of the crown. Although manufacturing efficiency boosted the variety of goods and lowered prices, advertising provided most information about products. Through much of the past century, ads spoke to a captive audience confined to just a few radio or television channels or a limited number of publications. Now media choice has exploded too, and consumers select what they want from a far greater variety of sources —especially with a few clicks of a computer mouse. Thanks to the internet, the consumer is finally seizing power.

As our survey in this issue shows, consumer power has profound implications for companies, because it is changing the way the world shops. Many firms already claim to be "customer-driven" or "consumer-centric". Now their claims will be tested as never before. Trading on shoppers' ignorance will no longer be possible: people will know—and soon tell others, even those without the internet—that prices in the next town are cheaper or that certain goods are inferior. The internet is working wonders in raising standards. Good and honest firms should benefit most.

But it is also intensifying competition. Today, window shopping takes place online. People can compare products, prices and reputations. They can read what companies say about products in far greater detail, but also how that tallies with the opinions of others, and—most importantly of all—discover what previous buyers have to say. Newsgroups and websites constantly review products and services.

This is changing the nature of consumer decisions. Until recently, consumers usually learned about a product and made their choice at the same time. People would often visit a department store or dealership to seek advice from a salesman, look at his recommendations and then buy. Now, for many, each of these steps is separate. For instance, Ford is finding that eight out of ten of its customers have already used the internet to decide what car they want to buy—and what they are willing to pay—even before they arrive at a showroom.

Know-alls

Of course, the amount of time people spend researching and checking prices tends to rise in proportion to the value of the product—and cars are expensive. But consumers are displaying similar behaviour when they purchase other things, such as digital cameras, mobile phones or fashionable clothes. And while supermarket shoppers may not research in this way all the individual items they drop into their trolley, many suppliers of the packaged goods sold in supermarkets are already acutely aware that their customers, too, are better informed than ever before about the value or health implications of the products they sell.

Reaching these better-informed consumers with a marketing message is not easy, and not only because they are more sceptical. Many people now spend as much time surfing the web as they do with television, magazines or newspapers. The audience for advertising is splintering and its attention is harder to attract. On top of that, many people are arming themselves with technology to avoid marketing messages, such as pop-up ad-blockers for the internet and personal video recorders that make it easy to skip TV commercials.

Despite the flood of product and price information suddenly available, consumers are unlikely ever to become wholly calculating. Tastes and fashion will differ. Brands are likely to remain popular. But brand loyalties are weakening. A slip or delay can cost a firm dearly and hand the advantage to an opportunistic rival. This is how Apple's iPod snatched from Sony the market leadership in portable-music devices.

Virtual shopping

Many firms do not yet seem aware of the revolutionary implications of newly empowered consumers. Too many companies relaxed after the bursting of the dotcom bubble, assuming that the online threat had faded. This was a mistake. It is true that the vast majority of people still go to shops for most purchases (though online sales continue to grow). Before doing that, however, most have used the internet. More than 90% of people aged between 18 and 54 told America's Online Publishers Association in a survey that they would turn to the internet first for product information. The differences between the virtual and the bricks-and-mortar worlds do not worry consumers. But they should worry companies. Many consumers first encounter a firm through its website, and yet for too many firms, their online presence remains a low priority.

By contrast, some businesses have embraced the internet wholeheartedly, and been rewarded for it. Dell has by-passed retailers and used direct sales to become the world's leading supplier of personal computers. The web is also transforming the travel business, giving consumers the power to book flights, hotels and cars directly. And it has allowed hundreds of thousands of small businesses, from mom-and-pop stores to traders of collectibles on eBay, to reach a global market.

The explosion of choice that followed the opening of Mr Wanamaker's store is minuscule compared with the cornucopia already provided by the internet. But the consumer's choice is about to become even greater. Internet search firms such as Google, Yahoo! and MSN are now falling over each other

to offer more localised services. These promise to open up a new goldmine in search advertising. And soon this facility will be available not just on PCs at home or work, but on mobile phones. At a touch, consumers will be able to find a local store and then check the offers from nearby outlets even as they browse the aisles, or listen to a salesman. When that happens consumers will truly be kings, and only those firms ready and able to serve these new monarchs will survive.

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Kirgizstan

One down, four to go

Mar 31st 2005
From The Economist print edition

Revolution reaches the steppe

AFP

WAS it people power, mob rule, an insiders' stitch-up or just a mess? Almost certainly, Kirgizstan's "tulip revolution" (also known as the daffodil, pink, silk and lemon revolutions) was an unsavoury blend of all four—hence the colour confusion. The one thing it certainly wasn't was a glorious democratic victory. But not many revolutions are.

As the dust starts to settle around the presidential palace in Bishkek a few things, however, are clear enough. First, that a corrupt and autocratic ruler has been ousted, almost bloodlessly. Askar Akaev may have been the least repressive despot in a bad neighbourhood, but he, his family and his cronies had monopolised power, and the state's meagre resources, for far too long. Whoever ends up ruling Kirgizstan next (presidential elections may be held in June but that is by no means certain) will be powerfully aware of his fate—however it was brought about. So even though it looks as though Mr Akaev's successor will almost inevitably be an insider (rather than, say, a dissident absurdist playwright), there is some hope that he will feel constrained to behave better.

Second, it is inevitable that the fall of Mr Akaev will send a powerful message to democrats and the merely dissatisfied in the rest of Central Asia, that depressing collection of Soviet-era relics that specialists call "the Stans". With the exception of anarchic Tajikistan, at the time of Mr Akaev's fall all of the Stans were still ruled by whoever happened to be the local boss when the Soviet Union imploded in 1991. An autocratic decade and a half on, none of the Stans has managed to acquire either the democratic freedoms and relatively good governance of the European parts of the old empire, or the get-ahead economic dynamism of Asia: they have, in a literal sense, the worst of both worlds. But revolution is contagious, as eastern Europe and much of East Asia is well aware. It

was only a matter of time before the virus that has successfully claimed the rest of the Russian periphery, bar Belarus, arrived from Ukraine on the Central Asian steppe (see article).

The most likely place for it to strike next is Kazakhstan, where Nursultan Nazarbaev and his daughter enjoy the same kind of unfettered personal rule as Mr Akaev did. The other candidate is Uzbekistan: people there are much poorer than in oil-endowed Kazakhstan, but Islam Karimov runs so repressive a regime that the courage to overthrow him may well prove lacking. Tajikistan is surely too much of a warlord-ruled narco-state for any form of a revolution—revolutions usually require an engaged middle class. In Turkmenistan, which is probably, with North Korea, the world's most totalitarian state, literally anything could happen. But a coup against the demented Turkmenbashi ("the Father of Turkmen"), who has renamed January after himself and April after his mother, seems more likely than an uprising.

A last thing that seems clear is that this revolution will be no panacea. When despots fall, there is often nothing very suitable to replace them: the whole point about dictatorship is that it does not tolerate alternate sources of legitimacy. The transition towards democracy may be rapid, as in most of eastern Europe, or difficult and bloody, as in Indonesia, or both bloody and extremely protracted, as it shows every sign of being in Iraq—or just glacial. An absolute precondition, though, is to get the autocrats out of power. In most cases, what follows will be better. There is reason to hope that this will be so in Kirgizstan. Raise a cup of fermented mare's milk.

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The oil-for-food scandal

Torturing the United Nations

Mar 31st 2005
From The Economist print edition

Something rotten happened. But wait for all the facts before demanding Kofi Annan's head

Getty Images

AT SOME point in his career as chairman of America's Federal Reserve, Paul Volcker appears to have learnt the art of Chinese water torture. Almost a full year since being asked by the Security Council to investigate the UN's mismanagement of Iraq's oil-for-food programme, Mr Volcker has yet to deliver his final report. That is now expected in the middle of the year. But he has this week issued the second of two interim ones (see article), on the strength of which many people, including members of the American Congress, are renewing calls for Kofi Annan, the UN's secretary-general, to resign. Should he?

Here's the torture. Neither of Mr Volcker's reports to date makes a clear case against Mr Annan himself. The first, in February, found that Benon Sevan, who headed the UN programme, had an “irreconcilable conflict of interest” because he helped a friend's firm acquire a lucrative oil contract from Iraq. Mr Sevan pleads innocence but has left the UN. This week's report focuses on Cotecna, a company that in 1998 won a “humanitarian inspection” contract—and happened to employ Mr Annan's son, Kojo Annan. Mr Volcker's team, seeking to find out whether this, too, amounted to a conflict of interest, has found no evidence that Kofi used any influence in awarding the contract to Kojo's firm. The senior Mr Annan therefore claims to have been “exonerated”. For two reasons, sadly, that is not the case.

First, the Cotecna affair is only one sub-plot in the larger drama of the oil-for-food scandal. The indictment his critics lay against Mr Annan is that the UN's boss should take ultimate responsibility for his organisation having mismanaged the programme, allowing Saddam Hussein to use bribes and kickbacks to siphon off billions of dollars that had been intended for humanitarian relief. Mr

Volcker's interim report says nothing about responsibility for this wider management failure so can hardly be construed as an exoneration.

Second, even in the Cotecna affair, Mr Volcker does not award Mr Annan a gold star. The report finds no evidence of corrupt behaviour by the senior Mr Annan, but it paints a disturbing picture. Kojo appears to have lied to Kofi about his relationship with Cotecna. Kofi “forgot” various meetings he had with Cotecna's boss. When Kofi did become aware that his son's employer had made a bid for a UN contract, he asked his chief of staff, Iqbal Riza, to make sure there was no conflict of interest. But Mr Volcker finds this investigation “inadequate”. Mr Riza then had many of his own files shredded—even after orders had gone out to preserve and secure all papers that might be relevant to the oil-for-food investigation.

In short, both the wider scandal and its Cotecna sub-plot suggest that Mr Annan has been a weak manager—even if, which remains to be proven, his ethics are as pure as snow. Moreover, oil-for-food is only one of several failures to have taken place on his watch. Another is the pattern of widespread sexual abuse by UN peacekeepers in several countries. A week ago, Mr Annan argued that the UN needed reform from top to bottom. Some of his ideas are good ones. But should he not make way for a new secretary-general, untainted by failure and controversy, to drive the changes through?

A weak manager, but with some reason

If the UN were a company and Mr Annan its boss, this paper would ask him to resign right away. But the UN is not a company. Ultimate power rests with the member states, not a chief executive with a licence to issue whatever orders he likes. In the case of the principal exhibit against Mr Annan—oil-for-food—there is an especially strong argument for reserving final judgment until Mr Volcker issues his final report.

That is because this programme was set up and run closely by the Security Council itself. Mr Volcker has yet to pronounce on how much blame lies with Mr Annan and how much with his political masters. As pressure on him mounts, Mr Annan may decide that his reputation is already so battered that he owes it to the UN to go. But hounding him out before all the evidence is in will add to the conviction of his defenders that he is being persecuted mainly for having criticised the American-led war in Iraq. Better to wait the few months until the Volcker report is complete. Then at last the water-torture can end.

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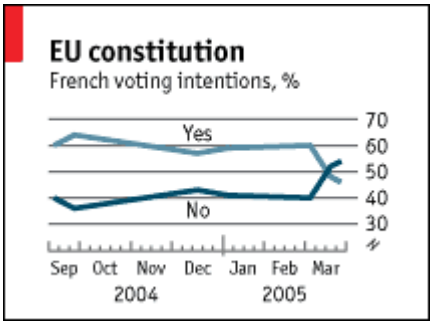
The European Union

Outlook: gloomy

Mar 31st 2005
From The Economist print edition

The EU agenda is being hijacked by worries over referendums on its constitution



LAST week's European Union summit in Brussels might have been worse. But it is quite hard to see how. The purported "relaunch" of the Lisbon Agenda of economic reform left it saddled, as before, with too many empty promises and too little genuine action. The assembled leaders told the European Commission to rewrite (ie, substantially withdraw) its planned directive to liberalise trade in services, the most important remaining single-market proposal. They tore up the euro's stability and growth pact, adding so many exemptions as to make its fiscal strictures on governments largely meaningless, but without formally scrapping the pact's bizarre notion of "fines" on miscreants. And they made no progress on the EU budget, beyond a gratuitous demand by France's president, Jacques Chirac, to end the British rebate negotiated by Margaret Thatcher in Fontainebleau two decades ago.

Not for the first time, indeed, the summit was suffused by big differences between Mr Chirac and Britain's prime minister, Tony Blair (see Charlemagne) which mirror a broader battle over the direction that the EU ought to take. Mr Chirac's declared aim is to rein in the "ultra-liberals" in the commission, whom he accuses of using the cloak of economic reform to undermine Europe's much-vaunted social model. Mr Blair, by contrast, wants Brussels to reinvigorate Europe's stuttering economy by further liberalisation and the injection of more competition. Quite soon, a new front will open up when the commission proposes to toughen its rules against state aids—only, yet again, to run into French (and doubtless also German) objections.

Each side in this battle has its supporters, which is one reason why there is no clear majority for either. Mr Chirac counts on the backing of fellow leaders from Germany, Spain and Belgium; Mr Blair on those from the Netherlands, the Scandinavian countries and Ireland. More importantly for the British, the commission under its new president, José Manuel Barroso, along with most of the eight new EU countries from central Europe, are in the liberalising camp, tilting the balance significantly in their direction.

Ratification nerves

The outcome of this battle, which might be caricatured as one between liberalisers and protectionists, is critical to the EU's future. But it is now being put on hold by the emergence of a new, extraneous factor: the EU constitution. What is nagging Europe's political leaders is not the text, which they grumpily signed up to last year, but the difficulty they are having getting it ratified. Mr Chirac's concern is the most pressing: France's referendum on the constitution will be held on

May 29th, and five opinion polls in a row have now come up with solid majorities for the no side. As many as eight other leaders face tricky referendums over the next 18 months, including Mr Blair, who plans to hold Britain's vote on the constitution some time in the first half of 2006.

The French referendum cast a dark shadow over the Brussels summit. Nobody present dared to say or do anything that might have upset Mr Chirac. That explains why his fellow leaders gave in so readily to the French president's insistence that the only way he could win his vote would be if they dropped talk of further economic reform, scrapped the services directive and made preservation of Europe's social model their priority. Mr Chirac has even barred Mr Barroso from campaigning in France, for fear that his ultra-liberal image might serve to galvanise the no vote.

Optimists about the EU might hope that, if the French in fact vote yes, the agenda of economic reform can then be revived. Yet Mr Chirac's strong opposition surely makes that unlikely. And, in any case, no sooner will the French hurdle be jumped than others will loom—the biggest being in the Netherlands (which votes on June 1st), the Czech Republic and Britain. The pressure will be on to say or do nothing that might be used by the no campaigners in these countries. That will almost certainly sink any chance of a deal on the EU budget, for example, since the British rebate will have to be seen to be “non-negotiable” at least until the British referendum.

It is bad enough that the entire agenda of EU business should be hijacked in this way. What makes it worse is that such negative tactics are being pressed into service for the sake of such a constitution. They may backfire anyway. Mr Chirac appears to believe that, by railing against the commission and labelling “ultra-liberalism” as the new communism, he will demonstrate France's political prowess in Europe and seduce disaffected left-leaning voters into the yes camp. Equally Mr Blair labours under the delusion that he can talk British voters into backing the constitution by stressing the “red lines” he has protected from unwanted incursions by Brussels and claiming that he is winning the argument in Europe.

What both may find is that, by seeming to demonise the commission and the EU, they may persuade voters not to say yes but to junk the constitution. And if even the heads of government who negotiated the text have so little positive to say about it, who is to say they would be wrong to do so?

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Congress and the judiciary

Don't go nuclear

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It would be a mistake for the Republicans to change the Senate's irritating filibuster rules

Alamy

IN JAPAN, parliamentarians from minority parties who want to delay crucial votes “ox-walk”, or move with infinite slowness to the ballot boxes; in Britain, they try to “talk out” bills or bury them at the committee stage. Few delaying devices, however, have proved quite so irritating to governing parties as the senatorial filibuster.

America's upper chamber grants each member considerable freedom to block laws, and senators have not always used this wisely. In 1935, Huey Long of Louisiana delayed the renewal of Franklin Roosevelt's National Recovery Administration by reciting, among many other things, his recipe for fried oysters and a life of Frederick the Great. For years, southern senators repeatedly filibustered civil-rights bills, with a law getting through in 1957 only after Strom Thurmond of South Carolina had spoken against it for more than 24 hours consecutively. More recently, the mere threat of filibusters has been enough to derail trade bills, arms-control treaties and various presidential appointments.

The only sure way to stop a filibuster is a vote of “cloture”, suspending debate, which requires the support of 60 of the Senate's 100 members. This explains the frustration of George Bush's Republicans, who control 55 seats in the Senate, and who are furious that Democrat threats of filibusters have managed to block around 20 of the president's conservative judicial nominees. The Republicans are threatening to unleash the “nuclear” option, exploiting a technicality to force a vote forbidding the filibustering of judicial nominations. This vote would require a simple 51-49 majority.

The Republicans' determination over judicial appointments will only have been increased by the judiciary's failure (at least in social conservatives' eyes) to do more to save the life of Terri Schiavo (see article). The likelihood that one or more Supreme Court justices will soon need replacing adds another incentive. More generally, the American right's declared aim is to replace retiring "activist liberal" judges, such as those who sanction gay marriage, with those who interpret the constitution in a less cavalier way. Given Mr Bush's success at the polls, surely he has a right to put that change into practice?

This explains why the nuclear option is such a great temptation for Mr Bush's generals in the Senate. Nevertheless it is one they should resist, principally because it would be a piece of congressional vandalism, but also because it almost certainly does not make sense politically.

On the face of it, removing filibusters for judicial nominations may seem a small tweak. America's constitution is full of other checks and balances, and the founders did not specifically require a super-majority for judicial nominations as they did for ratifying international treaties or impeaching presidents. It is left for Congress to decide. Most parliaments have "guillotine systems" for making sure laws can get passed. Why not get rid of a minor obstruction and speed things up, especially if the change applies only to judges?

Sauce for the goose

This sounds logical, but it is actually the wrong way round. The role of Congress is not to speed up laws and appointments but to test them and, yes, often to delay them. The Senate's peculiar powers and clubby rules may be irritating, but they guarantee its independence from the executive —a separation of powers that conservatives have normally held dear. So changing the rules on judges would be worth the risk only if it were a matter of small consequence; if the Democrats were being outrageously obstructive; or if there were a huge gain to be had in terms of efficiency. None of these things is true.

The Republicans' own fury about those liberal judges merely underlines how important the judiciary is in the culture wars (abortion, gay marriage and the like) that divide America so bitterly. Imagine the fury from the right if Bill Clinton had been able to "railroad through" more activist judges on a simple majority vote. Second, the Democrats' obstructionism is hardly unprecedented: they are rejecting Mr Bush's judges at roughly the same rate that the Republicans turned back Mr Clinton's choices. And, finally, the nuclear option's efficiency gains would be minimal or perhaps even negative. Democratic senators would retaliate against any nuclear attack by using all the other delaying tactics open to them to close down the upper chamber. And in the long term, would conservative advocates of smaller government really want to see, say, President Hillary Clinton with greater powers?

As one conservative commentator, George Will, has pointed out, Mr Bush might well get most of the judges he wants by calling the Democrats' bluff. Force a vote on each nominee, and then dare his foes, some of whom face tough elections in conservative states next year, to talk them out as Thurmond tried (and failed) to do in 1957. Mr Bush might well either get his judges or use the Democrats' intransigence as ammunition to push the Republicans up to 60 seats next year. A gamble, perhaps; but much less risky for both Mr Bush and America than playing around with the long-established powers of Congress.

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Britain's Liberal Democrats

Not yet liberal enough

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The bravery of the Liberal Democrats is undermined by their cynicism

Corbis

BRITAIN'S third party, the Liberal Democrats, demands to be taken seriously. Although the perennial victim of Britain's first-past-the-post voting system, it expects to win more seats in the coming general election than any third party since 1929 (see article). It is unlikely but not impossible that 60 or 70 Lib Dem MPs could even find themselves holding the balance in a hung parliament. The party claims to provide more effective opposition than the Conservatives, partly because Tony Blair's government has, arguably, left more space to its left than its right. This has allowed the Lib Dems to show themselves at their best, but also at their worst.

They have shone most brightly as the only mainstream party consistently concerned with civil liberties. A government with a large majority, tormented by the constant fear that it might not be doing enough to thwart a terrorist-inspired catastrophe, is not a reliable guardian of liberty. Nor are the Tories, who cannot risk getting too far out of step with the authoritarian instincts of many of their supporters. So it has been the Lib Dems who have usually offered the most coherent and principled critique of the government when it has needed to be held to account, as over the recent control orders for suspected terrorists. It is further to their credit that when Labour and the Conservatives have seemed locked in a battle to see who can come up with the toughest-sounding policies on immigration and asylum, it has been the Lib Dems who have made the case for welcoming the contribution of immigrants and urging generosity towards asylum-seekers.

The Lib Dems' leader, Charles Kennedy, also took a risk in opposing the Iraq war. Had WMD been found and the war's aftermath been handled better, he would have been damaged. This newspaper disagrees with Mr Kennedy over Iraq, but he did democracy a service by voicing the concerns of many of his fellow citizens. Moreover, he has done so without succumbing to the temptation to call Mr Blair a liar. If, as seems probable, Iraq pays a handsome political dividend for the Lib Dems, Mr Kennedy and his foreign-policy spokesman, the impressive Sir Menzies Campbell, will have earned it.

These principled stands contrast unfavourably, however, with the carefully judged opportunism of some of the party's policies and the lack of rigour that characterises others. On the economy, the party has made progress since the appointment of Vince Cable as shadow chancellor. He has tried to curb the party's enthusiasm for interventionism and high taxes, but with only partial success. The Lib Dems hope to fund their ambitious spending commitments by raising the marginal rate of tax on

earnings of over £100,000 ($190,000) to 50% at a time when most countries are taking their income-tax rates in the opposite direction.

Still not serious enough

The way in which the party intends to spend most of the £5 billion it optimistically thinks this 50% rate would raise shows its opportunism. The party's promise of free long-term care for the elderly is above all a sop to the middle classes worried that their inheritance may be eaten up by the needs of aged parents: free care for all, rich or poor, is essentially an inheritance tax-break. Moreover, the commitment to scrap university tuition fees looks more like another middle-class bribe than a serious policy for improving Britain's faltering and under-financed higher education system. That both offers are likely to go down well in the kind of seats they must win from Labour and the Tories is undeniable, but as the poor will benefit little from either, they somewhat undermine the Lib Dems' claims to “fairness”.

Most discouraging of all is the party's reluctance to have anything serious to say about the running of the public services, arguably the most important issue on the domestic policy agenda. Its spokesmen could almost be representatives of the teaching and health-service unions, so resolutely producerist is their message. They rubbish both targets and the role of quasi-markets as means of improving delivery, but offer no practical alternative. Their mantras that people want a good local school or hospital more than they want choice, and that every decision must be left to the “professionals on the frontline”, are no substitute for a policy.

This may seem harsh given the party's need to pick up votes wherever it can and the near-certainty it will not have to form a government (the last Liberal prime minister was David Lloyd George in 1916-22). It is nonetheless disappointing that despite some promising stirrings, the Lib Dems have yet to come close to matching their admirable social liberalism with a rigorous economic liberalism. That is a combination that, for different reasons, neither Labour nor the Tories seem capable of emulating. Yet it might prove surprisingly popular.

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Living with Islam

The new Dutch model?

Mar 31st 2005 | AMSTERDAM AND THE HAGUE
From The Economist print edition

Hollandse-Hoogte

Increasingly, the Netherlands wonders whether diversity is always desirable

Get article background

FOR people who see themselves as the front line in an uncertain struggle to defend western civilisation—a struggle, moreover, which has already cost some lives—the cultural warriors of the Netherlands have a surprising spring in their step. “I see developments in the Arab world as very promising,” says Paul Scheffer, a journalist who is one of the leaders of an ideological movement that wants to counter Islamist extremism by putting more emphasis on the rule of law and less on accommodating differences.

Taking his cue from America's political right, he hails the fact that in some Middle Eastern countries ordinary people have challenged old elites and theocracies. In Europe, he reckons, traditional leaders who presume to speak for Muslim immigrants have it too easy, because governments pander to them out of a misplaced respect for cultural diversity.

“The very idea of a multi-cultural society is too conservative, because it denies the fact that the migration changes people,” says Mr Scheffer, a veteran of Amsterdam's bohemian, canalside intelligentsia, a world where the right to be eccentric, and to change, is held dear. He and his friends have been arguing that all would-be citizens of the Netherlands must be presented with a clear message. As the price of living in an open, law-governed society, they should acknowledge the right of others to individual choice, dissent and “apostasy” from the beliefs of their own community.

In some European countries, such language might sound intolerant. But in the Netherlands of 2005, it has entered the political mainstream. Nor are all its advocates of European background. Indeed, its strongest advocate of all, Ayaan Hirsi Ali (see article) has a personal history which, in many people's eyes, gives her a unique authority to speak about the dark side of religious fundamentalism. What she, Mr Scheffer and, in a different way, the maverick politician Geert Wilders —who recently left the centre-right Liberals to form a new, Eurosceptical party—all have in common is a sense, bordering on arrogance, that history is on their side.

From their viewpoint, the events of last November—the killing of a film-maker, Theo van Gogh, followed by a spate of tit-for-tat burnings of schools and places of worship—merely vindicated what they had been saying for years: immigrant communities that refuse to align their values to those of western democracy are a ticking time-bomb. Nor are they shy about voicing opinions on other parts of Europe. Mr Scheffer, for example, thinks Britain made a terrible mistake by allowing policewomen to wear Muslim headscarves, since uniforms are supposed to express the state's neutrality between citizens.

Do these cultural ideologues have good reasons to feel confident, at least with respect to their own country? To some extent, yes. In all parts of the Dutch spectrum, politicians have to take account of a public mood that is deeply fearful of religious extremism and terrorism, and feels that too much stress has been laid on accommodating different values and faiths.

There are long-term reasons for this, and also short-term ones. Take the latter first. Dutch citizens have been horrified not only by the slaying of Van Gogh—the second murder of a critic of Islam in two years—but also by the reports that the alleged killer, Mohammed Bouyeri, was part of a larger cell, consisting of about 15 youngsters, who may have been in touch with some quite sophisticated godfathers of international terror.

Twelve suspected members of this cell, dubbed the Hofstad group by police, went on trial in Rotterdam in February; they were accused of planning more political killings. Most were of Moroccan origin, but they included two Dutch-American converts to Islam. For some Dutch citizens, Mr Bouyeri's life-story provides a sober warning of the complexity of the integration issue. Far from being a victim of exclusion, he did well at school and was active in community affairs. Only after hitting professional and family problems did he fall in with extremists.

Snail's-pace integration

The current wave of alarm over terrorism—heightened this week by a bomb scare in parliament—comes on top of a longer-term Dutch backlash, beginning five years ago, against policies which, as people now see things, threw money at poorly integrated immigrants and hoped their problems would go away. This political impulse helped to fuel the spectacular rise of Pim Fortuyn, a sociologist who denounced Islam's intolerance and was killed by an animal-rights activist in 2002.

Now that everyone deplores the “denial” of social and cultural problems in years past, there has been a spate of well-publicised research into the size and shape of Dutch Islam. Its findings are at once both troubling and reassuring.

In a Muslim community approaching 1m, there are two big groups. About 350,000 originate from Turkey and 300,000 from Morocco, mostly from the poorest parts of those countries. In both groups, young people usually take spouses from the home country—so integration into Dutch society is delayed by a generation or more. Among youths of Moroccan origin, there is a high incidence of petty crime. The Turks, by contrast, tend to form a “society within a society” with their own businesses, legal and otherwise, and strong links with the homeland.

The second generation of Dutch Muslims is less devout than the first, but only a little. A survey found that 37% of second-generation Turks attended a mosque once a week while 47% of their parents did; among Moroccans, the equivalent figures were 32% and 46%. In both groups, about two-thirds said they would not want their daughters to marry a non-Muslim. Generation made little

difference to this. Some 29% of those from Turkey and 32% of those from Morocco felt Islam should have some say in politics, but only 2% and 3%, respectively, felt it should have the final say.

Meanwhile the Dutch intelligence service, AIVD, has made an estimate that was meant to reassure but may have done the opposite. It said 95% of Dutch Muslims were “moderates”—a figure which suggests that nearly 50,000 are potential militants. In fact, the number of active extremists, liable to commit violence, is estimated at around 200, with a loose support group of 1,200.

In a society that was sure of its values, and determined to protect itself, keeping such a threat at bay should not present an insuperable problem. But despite the self-confidence of the new political right, Dutch society is far from sure of itself. The Netherlands tends to alternate between long periods of stability and phases of dramatic social change. The current mood feels more like the latter, says Geert Mak, a journalist.

There is now a widespread feeling that the country's social problems have been exacerbated by policies that made it easier to live on welfare than to work. In some urban areas, until very recently, well over half the men of Moroccan origin over the age of 40 were living on social security and had little expectation of working.

Tolerant in Amsterdam

The government has now made it harder for people to refuse jobs that they are capable of doing, and still receive unemployment benefits. But for all their self-confidence, advocates of “tough love” for immigrants are exaggerating if they claim to have the field to themselves. For one thing, one big institution still believes strongly that public money is well spent on bringing together people of different faiths and races: the city of Amsterdam.

Like every Dutch advocate of what some would call touchy-feely policies, the mayor of Amsterdam, Job Cohen, is a little defensive these days. But he still argues that learning to live with immigrant cultures, including Islam, is a challenge for hosts and newcomers alike. “Both sides must take steps” to understand one another, he insists, if only for the “purely selfish reasons that society cannot function” otherwise. Such talk might sound reactionary in the municipal politics of, say, London; but in the Netherlands, it identifies the speaker as a bleeding heart.

The mayor insists that not everything done in the 1990s was wrong. Despite differences of culture and religion, he points out, two-thirds of immigrants are now doing well. He takes satisfaction from the fact that Amsterdam was spared last November's spate of Christian-Muslim violence and arson, believing that the city's spending on race relations helped. But he worries that “integration cannot be achieved overnight” and that the process may take another generation.

Government officials insist that the centre-right coalition is not indifferent to the welfare of immigrants, Muslim or otherwise. During the Dutch presidency of the European Union, in the second half of last year, the government made a huge effort to affirm the idea that policing migration and promoting “integration”—including the problems posed by culture and religion—were inseparable policies which EU states must tackle jointly.

Only days after the killing of Van Gogh, the Dutch government convened the first EU-wide meeting of “integration” ministers and won assent for “common basic principles”—including the idea that helping migrants to adapt is a task for receiving countries and new arrivals alike. Given the climate in the Netherlands at the time, that was not uncontroversial. Back at home, the government has launched a very Dutch-sounding “broad initiative for social cohesion” in which NGOs and religious groups will be urged, and helped, to find ways of improving race relations.

Tackling the extremists

But that is not the main concern of many Dutch citizens. They are more interested in recent government moves to crack down on extremism by expelling militant imams and insisting that, in the near future, all imams must be Dutch-educated. Dutch universities have been offered subsidies to open theological departments to train Muslim prayer-leaders. The education ministry has also announced that any new schools will be expected, as a condition of opening, to prove that they intend to transmit the values of Dutch society to their pupils. Although this makes no explicit reference to Islam, it is clearly aimed at Muslim schools.

As the government is surely aware, some strange noises have been coming from a country known for pragmatism and tolerance. The head of the Liberal Party's think-tank is calling for the return of the death penalty, while the parliamentary leader of the Christian Democrats, the main party in the ruling coalition, has promised to resist the introduction of *sharia* law.

A little closer to the real world, perhaps, Parliament is in the process of adopting a package of stringent anti-terrorism laws that would curb civil liberties to a degree that worries some judges. This, too, is an unfamiliar turn of events for a country that until recently saw the European charter of fundamental rights as much too lax in its defence of personal freedom.

In a mood of confusion over national identity, there have been calls for a new canon of Dutch history, hitherto an unfashionable subject. This could be a basis for national self-awareness and even for pride in the country's tradition of freedom and tolerance. Some people have retorted that such a canon should also reflect the unhappier moments in the Dutch past, including colonial wars and the failure to save many Jews from the Nazis.

And though the frenzy caused by the Van Gogh killing has now eased, neither Dutch society nor politics should be considered stable, says Mayor Cohen. The current quiet, he believes, may last only as long as there are no dramatic events. In any case, the Netherlands “seems as if it has lost its anchor”, and it may stay so for a while yet.

What nobody knows is whether the new political right will succeed in persuading the Dutch—and indeed other Europeans—to embrace a new sort of politics which, like its American counterpart, puts strong emphasis on values and principles rather than expediency and compromise.

To many Dutch observers, the country's famed tradition of tolerance is a reflection not so much of high ideals as of pragmatism. In cities such as Amsterdam or Rotterdam, which aspired to be international commercial centres long before globalisation, it made good business sense for Protestants, Catholics and Jews to co-exist and trade together, live and let-live.

Faced with the challenge of absorbing immigrants from traditional societies—and drawing the right line between curbing extremism and fostering diversity—Dutch common sense will certainly help, but may not be enough. Like their American counterparts, the ideologues of the new Dutch right have won a wide hearing for the idea that values are important. They have yet to convince Dutch society that they have found the right means of upholding these principles.

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Ayaan Hirsi Ali

A firebrand under cover

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From The Economist print edition

Dutch, Muslim and speaking out

THERE are some things Ayaan Hirsi Ali loves about her adopted country, and others that exasperate her. Among the latter is the Dutch penchant for compromise and negotiation—over everything, even her living arrangements.

Since the murder of her friend and artistic collaborator, Theo van Gogh, this Somali-born politician has led a clandestine existence. At first, she was spirited out of the country. She then reappeared in Parliament, where she is a fierce lobbyist for measures to protect women from violence, but she remains under 24-hour police protection.

Now her government minders have found a house for her which in their view can be made secure, and the details of her move are being fine-tuned. She finds it frustrating. But having spent part of her childhood in Saudi Arabia, where her mother could not leave the house unaccompanied, and then fled an arranged marriage in Canada, she is used to difficult domestic arrangements.

The Dutch may love compromise, but they are also blunt, and, as Miss Hirsi Ali sees things, the death of her friend has reinforced that virtue. It has made possible an open, honest debate about Islam—and the compatibility of that faith with democracy.

On that subject, she has more strident views than any other public figure of Muslim heritage in the Netherlands. Calling herself a “lapsed Muslim”, she has long argued that anybody who followed the Koran literally would break the law. She accepts that Islam's founder was progressive for his own time, but says that is no reason why his words should be followed to the letter today. Reforming Islam from within might work, but not if every word of the Koran and the sayings of the Prophet is sacrosanct. “It's locking a room and then asking me to redecorate it,” she insists.

Nor, apparently, does she hold much with the Koran's instruction to be “courteous when you argue” about belief. In her view, Dutch bluntness is best, even on the most sensitive topics. “Avoiding offence”, she says, “means that we don't accept each other as equals.”

In one respect, her tactics have not had the desired effect. The film she made with Van Gogh, in which Koranic verses were shown on a naked woman's body, was intended to spur debate about the content of those verses. “What I got instead was a debate over whether it was blasphemous to put those verses there.” Another irony is that instead of accepting Miss Hirsi Ali as their champion, many Dutch Muslim women have turned against her, and a few are now among those who threaten her.

But she remains the ultimate immigrant success story. Arriving penniless, she embraced her new country's liberal values and has taken them to unexpected conclusions. Some politicians fault her for antagonising people, but she dismisses her critics with a wave of her delicate hand. “They decided

to let immigrants in, and I am an immigrant. They gave us a chance to participate in this country's life, and I took it. If there are people in the Netherlands who don't like that, well, that's a pity."

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Liberal Democrats

Charles Kennedy's smart act

Mar 31st 2005
From The Economist print edition

The Liberal Democrats are gaining ground. What happens if they start to matter?

THE wild card in the general election expected on May 5th is a party that has barely sniffed power since the first world war: the Liberal Democrats. Although Labour strategists are reluctant to admit it, the third-party Lib Dems may threaten the government's chance of another big majority more than the Tories do.

The 70-plus seats for which the party is privately hoping, against the 52 they won in 2001, are still some way from the tipping point of their dreams. But even that quite possible result could chill both Labour and Tory hopes. It would cost several top Conservatives their seats (half a dozen have close Lib Dem challengers) and dent the party's chances of a real comeback in five years' time. And Lib Dem inroads into traditional Labour territory coupled with a smaller government majority would threaten Tony Blair's ability to push ahead with radical reform of public services.

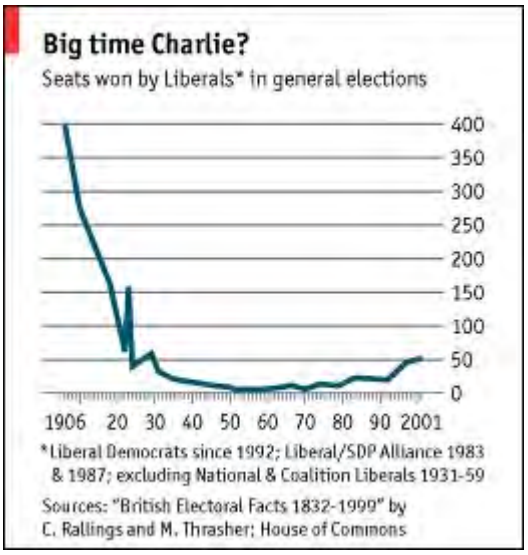
How likely is that prospect? The Lib Dems are used both to false dawns and the savage quirks of Britain's first-past-the-post electoral system. Despite gaining 25% of the vote in 1983, their forerunner, the Alliance (consisting of the-then Liberals plus the Social Democratic Party, founded by Labour defectors) won only 23 seats. A few months earlier, David Steel, the Liberal leader, had instructed his party activists to “prepare for government”.

Charles Kennedy, a good-humoured Scot who has led the merged Liberal Democrats since 1999, avoids the vainglory that beguiled his predecessors. He declines to contemplate even the possibility

of his party wielding power in the event of a hung parliament. The most he is prepared to say is that anything is possible.

In 2001, the party won 52 seats with an 18% share of the vote. Since then, electoral trends have been working in the Lib Dems' favour. Following the invasion of Iraq two years ago, Labour's support has fallen substantially. During almost the whole of its first five years in office, Labour's monthly average in the opinion polls remained stubbornly above 45%. Last year, its average poll rating never exceeded 39%.

But there is little sign of disaffected Labour voters switching to the Tories, whose position in the polls has been anchored in the low 30s or worse for over a decade. By contrast, in the past six months, the Lib Dems have averaged just below 22%, seven points higher than before the 2001 election. It looks as if the anti-war stance taken by Mr Kennedy has paid off handsomely.


Big time Charlie?
Seats won by Liberals* in general elections
400
350
300
250
200
150
100
50
0
1906 20 30 40 50 60 70 80 90 2001
*Liberal Democrats since 1992; Liberal/SDP Alliance 1983 & 1987; excluding National & Coalition Liberals 1931-59
Sources: "British Electoral Facts 1832-1999" by C. Rallings and M. Thrasher; House of Commons

Although the war has receded as an election issue, Mr Kennedy argues that it exposed the issue of trust in the prime minister, with enduring effect. Iraq, he believes, is to Labour, or at least to Tony Blair, what sleaze was for John Major's Tories—a permanent reminder of something distasteful. Mr Kennedy argues that Mr Blair's trust deficit now makes it far harder for him to be believed when he boasts of the great strides made in reforming the NHS or education. As a result of the party's willingness to stand up against the war when the Tory front bench was for it, the Lib Dems' boast that they are now the real opposition has some substance.

Robert Waller, co-author of the “Almanac of British Politics”, argues that there is a “significant realignment of the traditional political spectrum in Britain” under way. By declaring themselves the anti-war party and by taking up policy positions to the left of a Labour government that no longer espouses socialism, Mr Waller thinks that the Lib Dems could challenge Labour seriously in up to 20 seats.

Among them are “university seats”, where students, their teachers and younger professionals, particularly those working in the public sector, were one-and-a half times more likely to vote Lib Dem in 2001 than other groups. The Lib Dems do well with such voters on Iraq, on their hostility to tuition fees, and for defending civil liberties and immigration.

In some Labour seats in the Midlands and the North-West with a concentration of Muslim voters, Iraq may still play particularly strongly. Last summer, by-elections in Leicester South and Birmingham Hodge Hill saw big swings to the Lib Dems.

Admittedly, these constituencies are very different from the ones in which the Lib Dems traditionally do well (chiefly Scotland and Wales, rural constituencies in the south-west of England and prosperous suburbs) where the main enemy is the Tories. Nor, with policies easily found on the internet, can the Lib Dems play a favourite trick from the past: tailoring their message to appeal to Labour voters in one part of the country and Tories in another.

Lord (Chris) Rennard, the party's campaign chief, is unconcerned. The party's policies, he says, play as well with Tory turncoats as they do with disillusioned Labour supporters. Middle-class Tories with children heading for university will like the Lib Dems' promise to abolish tuition fees, due to rise to £3,000 ($5,600). They will also like the Lib Dem policy of making long-term care for the elderly free. The first absolves such voters from worrying about their children's university debts; the second means their inheritance is less likely to be eroded by the cost of nursing their parents. Both are to be paid for by a new 50% tax rate on earnings over £100,000 a year. And while both the Tories and Labour are offering to ease the burden of council tax on pensioners, the Lib Dems want to replace it outright, with a fairer-sounding local income tax. Nor is the party's stance on the war an obstacle. Conservative voters supported the war less, and dislike George Bush more, than Labour ones.

Another plank of Lord Rennard's strategy, which plays well with fed-up Labour voters, is that as there is no danger of the Tories winning, it is safe to vote Lib Dem. That will not feature in the televised campaign (the so-called “air war”) but it will be a key theme of the Lib Dems' “ground war”. A third of the country (Scotland, Wales and northern cities) has, he argues, become a no-go area to the Tories, making it almost impossible for them to form a government. Remove the fear of Michael Howard in Downing Street, he thinks, and many more people will vote Lib Dem to give the government a kicking.

The big question now for the Lib Dems is whether, as in previous elections, they will enjoy a surge in support once formal campaigning starts and the party starts getting a fairer share of television time. If after the first week of electioneering, the Lib Dems have moved up to around 25%, while the Tories have slipped back a couple of points, the “story” will be about Lib Dems catching the Tories up, Lord Rennard hopes. “If that were to happen,” he says, “we might be able to turn it into a very big by-election in which we can squeeze the Tory vote in lots of different places and the Labour vote in others.”

There is a less rosy alternative. Ominously, the issues of the informal campaign so far—race, asylum and immigration, which all seem to be high up voters' concerns, are those where the Lib Dems, to their credit, are at their weakest. Despite some wobbles (see article) the Tories show every sign of fighting a tougher, more vigorous and professional campaign than many, including Lord Rennard, thought them capable of. The nightmare for the Lib Dems is that their campaign lift might do more to deliver Labour seats to Mr Howard than to elect MPs of their own. It's another sign of Mr Kennedy's canniness that he will not be getting carried away until all the votes are counted.

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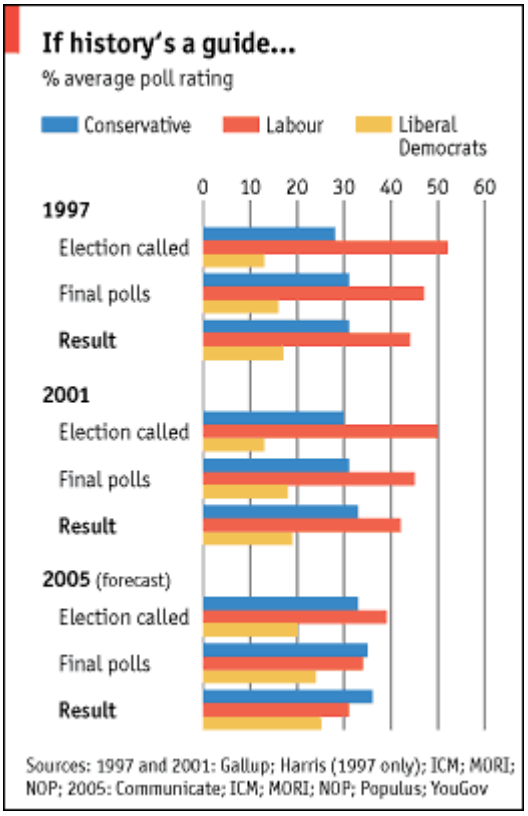
Opinion polls

All to play for?

Mar 31st 2005
From The Economist print edition

What the polls really show about the election's likely outcome

NEITHER the date of the general election (May 5th) nor the result seem in much doubt. But is Tony Blair's third term as certain as conventional wisdom suggests? Labour is still in the lead. The pollster with the best record from the past two elections, ICM, gives Mr Blair a comfortable eight-point lead. No polls from recent months show a firm trend for or against the two main parties. In recent weeks, neither Tory populism nor Labour's budget has stirred the voters. The only clear sign is that an apparent decline in support for the Liberal Democrats bottomed out in March. How boring is that?



One reason to stay interested is that the notion that New Labour has a ruthlessly effective campaigning machine is largely a myth. In fact, Labour lost ground heavily during both the 1997 and 2001 election campaigns. Its average poll rating fell by five points, with most of the gains going to the Lib Dems (though in 1997 the Tories advanced too).

Secondly, opinion polls' accuracy is in doubt. In 1992 they were seriously astray; on average the final polls put Labour narrowly ahead, yet when the ballot boxes were opened the Conservatives emerged nearly eight points clear. Although less serious, the errors in 1997 and 2001 were still in the same direction. In both 1997 and 2001 the polls overestimated Labour's lead by three points.

None of this mattered at the last two elections because Labour entered the campaign with such overwhelming leads. At the beginning of the 1997 campaign it was 24 points ahead, in 2001, 20 points. But on the eve of Mr Blair's expected announcement of the 2005 election his party's average poll lead is barely five points. Labour's lead fell by more than that in the past two campaigns; five points was also the average error of the final polls in 2001.

So if history were to repeat itself (see chart) Labour's poll lead would disappear by May 5th. Indeed, if Labour were to lose ground as heavily as it did in the 1997 and 2001 campaigns and if the polls were to be as similarly adrift, Mr Blair would end up five points behind Michael Howard. Even with the inbuilt advantage that the electoral system accords Labour, thanks to the current distribution of its support, Mr Blair would then lose his majority.

But will history repeat itself? As usual, the Lib Dems should gain from increased media coverage. But the pollsters are trying not to make the same mistakes again. They increasingly check their samples by asking how people voted last time. And they adjust the results according to how likely people say they are to vote. Both procedures typically reduce Labour's score.

A bigger innovation is YouGov's pioneering internet polling. This typically reports a lower Labour lead —in the past six months of just three points, half the figure in other polls. But YouGov's reputation suffered in last June's European elections, when the firm overestimated the strength of the fringe UK Independence Party. Even then, though, it did well in estimating Labour's vote. YouGov currently puts Labour's lead at just one point.

That creates at least a frisson of excitement. Even more intriguingly, an academic survey, the British Election Study, which over an extended period has been interviewing a sample including the kind of people pollsters typically miss, actually puts the Tories three points ahead.

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Politics and national identity

British or what?

Mar 31st 2005
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Labour has a go at patriotism, with muddled results

> Smile at us, pay us, pass us; but do not quite forget,
> For we are the people of England,
> that never have spoken yet.

NINETY years after it was written, “The Secret People” remains a good account of the national character. Foreign names and revolutionary concepts are still disliked, as they were by the heroes of G.K. Chesterton's poem; drink is still beloved. But the English (or the British: in Chesterton's day, the terms were interchangeable) are no longer secret. Politicians are responsible. Gordon Brown, the chancellor of the exchequer, and David Blunkett, the former home secretary, have recently eulogised the nation in speeches. More of the same is likely, especially since St George's Day (April 23rd) will fall in the middle of the expected election campaign.

Traditionally, the British left did patriotism poorly if at all. New Labour's first effort was the “young country” (or, as it was sometimes known, “Cool Britannia”), an optimistic and relentlessly forward-looking vision of a nation emerging from years of Tory rule. As the critics pointed out, the young country was historically rootless. It did not survive the ebbing of enthusiasm for the new government, nor the failure of its symbol, the Millennium Dome.

That was an embarrassment. So why the government's renewed interest in the nation? Some of it is the pre-election flag-waving indulged in by all political parties. Last week Michael Howard, the Conservative leader, gave a speech that began as a panegyric to Britain and ended as an orthodox recitation of Conservative plans. The implication in all such speeches is that a party's policies spring from the nation's collective consciousness, and not from anything so tawdry as political strategy sessions and focus groups.

But Labour has special reasons for touting its patriotism this year. One of them is the Tories' relentless attack on the government's immigration policies. Labour MPs know that they cannot win a bidding war on immigration. But they can assert that England is, in Mr Blunkett's words, “evidently mongrel, multi-national and multiethnic.” Talking about the nation's messy origins is a good way of reassuring people that immigrants will eventually integrate, without having to prove the case directly.

Another reason is the terrorist threat. Government ministers fear that an attack might provoke a backlash that would sweep away the nation's cherished values. Labour MPs look admiringly at America, where the horrors of September 2001 led not to attacks on Muslims but to an outbreak of flag-waving. Britain, they fear, might react differently.

If a healthy patriotism is advantageous, what kind should it be? The obvious choice is Britishness, both because Labour is by far the largest party in Scotland and Wales and because the welfare state has strong British roots. Mr Brown, as ever speaking from the party's comfort zone, eulogised the “British way” of liberty, fair play and charity in a speech to the British Council last year. As cynics pointed out, Mr Brown should appreciate the advantages of an identity capacious enough to allow a Scot to govern England.

But there is a problem with Britishness. As Linda Colley, a British historian now at Princeton, showed in her book “Britons: Forging the Nation”, Protestantism and war with France unified the kingdom in the 18th century. But churchgoing is now a minority activity, while wars tend to be fought by international coalitions. Politics is more fragmentary, too, thanks to Scottish, Welsh and Northern Irish devolution. According to the British Social Attitudes Survey, 41% described themselves as English rather than British in 2000—up from 31% in 1992. Welsh and Scots too have lost faith in the larger identity.

“Britain is the crown, laws and Parliament: it's political and legal,” says Bernard Crick, an academic who advised on the new citizenship ceremony. England (or Scotland, or Wales), on the other hand, is what people feel. In the rest of the kingdom, that is not a problem, since political and emotional loyalties coincide in devolved governments. But, since the English lack a parliament of their own, their patriotism can undermine the state.

Peculiarly, for such an historically dominant people, the English feel both superiority and pique at being overlooked. Mr Howard, leader of what used to be an explicitly pan-British party that now exists mostly in England, appeals to that sense of grievance by evoking “the forgotten majority”. Englishness can also turn nasty. Opinion polls show it more associated with ethnic purity than Britishness, an identity more attractive to blacks and Asians.

Mr Blunkett, who has never shied from grappling with the values of working-class whites, believes that Englishness can be rescued from the “little English”, opposed to immigration and everything foreign. Some of his colleagues are less certain. Mr Blunkett has a list of English rebels that a Labour government might be proud of (though perhaps not vice versa): the Levellers, the Chartists, George Orwell, even Monty Python. But not St George: he was a Turk living in Palestine.

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Farm animals

Down on the farm

Mar 31st 2005
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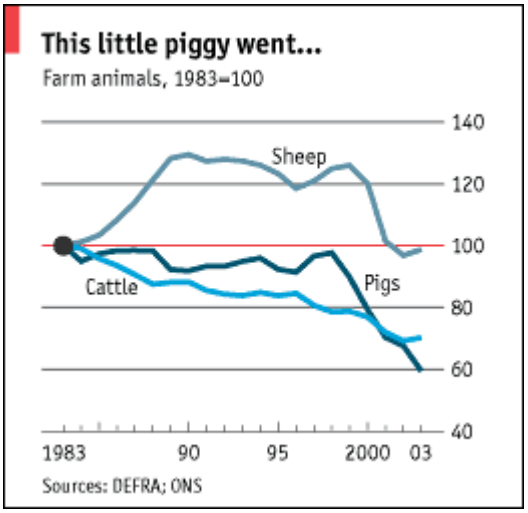
Farm animals are becoming rarer as subsidies dwindle

ANIMALS are a stereotypical feature of rural England, but a mixture of changing subsidies, technology, biology and market forces are making livestock in the countryside increasingly rare (see chart).



The reasons vary by species. For cows, the problem is that milk yields are growing steadily, while production quotas (part of the agricultural planned economy) have hardly risen since their introduction in 1984. So filling the quotas requires ever fewer cows. Demand for beef has fallen, too, partly because of health concerns over obesity and disease, says Sean Rickard, a born-again free-marketeer who was once chief economist at the National Farmers' Union. Furthermore, government efforts to prop up the price of beef have allowed cheaper meats, especially poultry and pork, to undercut it.

Not that this is good news for British pig farmers, who get very little government help. Porcine numbers are more volatile than bovine ones, but they, too, are shrinking. Pig farming had a good patch in the late 1990s, thanks to a weak pound and a disease outbreak in German and Dutch herds. Now the pound is stronger, foreign herds have recovered and, since 1999, new rules require more spacious living quarters for British pigs. European porkers will get them only in 2010. That means that the pig population is likely to remain low for the foreseeable future.

By contrast, sheep numbers rose dramatically in the mid-1980s, and have only fallen back recently. That's because European sheep subsidies, introduced in 1981, paid farmers both for breeding sheep and for killing them. Combined with a weak pound, that made them an attractive investment. Growth slowed after 1988, when the subsidies were reformed and eventually capped in 1993. But since 1999 there has been a steep drop, partly because of the pound's strength, but chiefly because of the outbreak of foot-and-mouth disease in 2001. Over 6m animals, mostly sheep, were slaughtered in an attempt to contain the disease.

But that may just have accelerated an inevitable decline, brought about by changes in the subsidy system. New rules introduced at the start of this year mean that, rather than being paid for individual animals, farmers get a single handout based on the size of their farms. With subsidies no longer tied to production, owning ovines is less attractive.

The same reforms apply to cow subsidies, and their effects will be compounded by further improvements in the technology of milk production. The average British heifer produces 6,634 litres of milk per year, but some European countries do much better. Dietary supplements, clever breeding and genetic engineering may increase production even further.

One suggestion for those committed to good animal husbandry is a move into fancy organic meat. But, says Mr Rickard, that no longer commands the price premium it once did. Animal numbers are expected to keep falling gently. That rural stereotype looks increasingly out of date.

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Redistribution

Rowing against the tide

Mar 31st 2005
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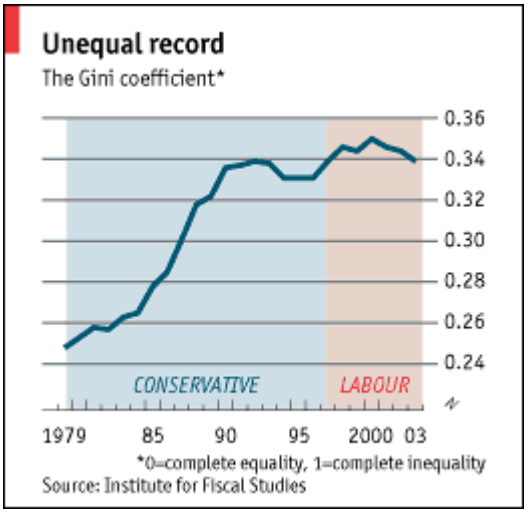
Labour's uneven record on inequality

THE pre-election budget in March, like its predecessors, favoured the poor. The overall impact of Gordon Brown's nine budgets since 1997, especially in Labour's second term, has been strongly redistributive. Robin Cook, a former foreign secretary, terms Mr Brown the most redistributionist chancellor since the Liberals' David Lloyd George, a century ago.



Yet new figures for the “Gini coefficient”, a measure of inequality in income distribution, shows it essentially unchanged in 2003-04, after Mr Brown's first seven budgets. The figure is based on net income, including benefits and tax credits. A slight rise in inequality since 1996-97, the last year that the Conservatives were in power, is statistically insignificant.

One reason for Labour's puzzling ineffectiveness in combating inequality is that incomes at the very top of the income distribution rose quite rapidly over the seven years to 2003-04. Another is that Mr Brown has focused on reducing poverty among children and pensioners but has done relatively little for people of working age without children. Among this group, which comprises two-fifths of the population, poverty has remained broadly unchanged since 1996-97.

Labour can certainly point to progress. Pensioners are now less likely to be poor than the rest of the population. There was a particularly sharp fall in their poverty rate—usually defined as the proportion of people living on income below 60% of the typical household's—in 2003-04, when the pension credit was introduced.

But child poverty has not fallen as much as the government had hoped. Labour set itself an ambitious target to reduce the number of poor children by a quarter between 1998-99 and 2004-05. There was only disappointing progress in 2003-04, especially since this was the year when the child tax credit was introduced. That may be a blip: there were administrative hold-ups in paying it. But the Institute for Fiscal Studies (IFS) estimates that Labour is now likely to miss the child poverty target if housing costs are taken into account in measuring it.

A third-term Labour government will have less spare cash to combat poverty and a big tax-raising budget looks inevitable. This week, the IFS reported that average incomes in 2003-04 had fallen for the first time since the early 1990s, as a result of tax increases after the last election. The

chancellor can once again direct the fiscal pain towards the better off, but the political costs of redistribution are rising.

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Tory troubles

Kamikaze Flight

Mar 31st 2005
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Why one Howard's sacking is bad news for another

JUST when the Conservatives were starting to feel pleased with their punchy campaign, their knack for self-inflicted damage has returned, with a lurid mix of nostalgic Thatcherism, an alleged German spy and a leader who talks tough but sounds brittle.

Howard Flight, a successful financier turned less-successful politician, told a meeting of a right-wing ginger group that the Tories would aim for bigger tax cuts than they were promising. The scope for expenditure savings was, he said, greater than those implied by work carried out for the Tories by David James, a City accountant. Someone taped Mr Flight's remarks and passed them to a newspaper (Tories blamed a German student, who says he wasn't there). Michael Howard, the Tory leader, not only sacked Mr Flight, a deputy party chairman, but barred him from standing as a Conservative candidate.

Senior Tories are livid with Mr Flight. They say that while they have strained to convince voters that their carefully worked out public-spending plans are exactly what they will deliver, he implied they were just window-dressing. “Whatever the fine principles, you actually have to win an election first, before you can get on with what needs to be done,” he said. The suggestion that there might be a hidden agenda also undermined the Tories' tactic of contrasting Tony Blair's slipperiness with their plain speaking.

The party cannot afford indiscipline. But how far should Mr Howard go in imposing uniformity? He was probably right to ditch Adrian Hilton, a candidate in Slough whose idea that the European Union is a Roman Catholic plot proved too weird even by the Europhobic standards of the modern Conservative Party.

But the smack of firm leadership has not squashed Mr Flight; it has just made him more famous than he can ever have dreamed of becoming. Backed by an expensive lawyer, he insists that only his local Conservative association can oust him. Mr Howard will no doubt get his way. But the row has already eclipsed two Tory policy announcements and threatens to drag on for a few more campaigning days.

Mr Howard's handling of both this affair and an earlier one has reawakened doubts about his leadership. A couple of weeks ago he rounded on an able young candidate and policy wonk, Danny Kruger, for saying that the public services could do with some Schumpeterian “creative destruction”. Neither Mr Howard, nor the left-wing pundits who seized on the remark, seemed to understand the intellectual pedigree of the reference, and Mr Kruger was told not to stand.

The disproportionate punishment of Mr Flight and Mr Kruger, neither of whom have said anything that many Tories do not think, makes Mr Howard look more panicky than decisive. It also

demoralises activists just when they are needed to knock on doors. Worse, it suggests that the Tories are prepared to cede to Labour a vital corner of the ideological battlefield.

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Lorry drivers

Tyred out

Mar 31st 2005
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New rules will worsen the shortage of lorry drivers but shake up the industry

LORRY drivers' image may be little better than the nasty, noisy monsters they steer, but Britain needs more of them. Stephen Wells, of Skills for Logistics, a government agency, says that employers lack 12,400 drivers, about 4% of the total currently employed.

The shortage is partly because the licence test has become tougher, and partly because the shrunken armed forces no longer train so many, but mostly because it is unattractively stressful: drivers earn as little as £8 an hour, but put up with tight deadlines, heavy traffic, nights away from home and long working hours.

To fill the gap, drivers work a lot of overtime: 68% exceed 48 hours a week. But on April 4th, when Britain implements new European safety rules, that will stop. Mr Wells thinks the shortage of drivers will then rise to 46,000.

One solution is to recruit in eastern Europe. Another, says Chris Philp of Clearstone, an employment agency, is to re-train some of the country's 4m low-paid semi-skilled workers. But John Manners-Bell of Transport Intelligence, a consultancy, says that only higher wages will dent the shortage.

Big contractors may be able to pass cost increases on to their customers. Some smaller firms, their margins already squeezed by fuel prices and competition, may go bust. That will be overdue in an inefficient industry. “A lot of big lorries are being driven around almost empty,” says Mr Manners-Bell. The best-performing companies, he says, have adopted a hub-and-spoke model, where big lorries ship goods to regional distribution centres for local delivery. Rising costs could force others to make that change too.

That might attract more drivers. Passing the two tests required to drive the biggest lorries costs a lot of time and money. Under the new model, most deliveries would be done locally, in smaller vehicles that can be driven after only a single exam. That ought to make everyone happy: driving a small lorry around a local patch is much less stressful than piloting a giant truck across the country. And they're quieter, too.

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Correction: Malta

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Last week's issue (see article) wrongly gave Malta the Victoria Cross, not the George Cross. Sorry.

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Italy's regional elections

In the voting season

Mar 31st 2005 | ROME
From The Economist print edition

the scandal and intrigue over this weekend's elections say about Italy

FOR some years now, new brooms have been heard rustling across southern Europe. In Spain, politics became visibly less corrupt under José María Aznar. In Greece, Costas Karamanlis has launched a campaign to curb graft. The exception, however, is Italy.

A high-profile anti-corruption drive in the 1990s destroyed the crooked party-financing methods that underpinned the old, Christian Democrat-dominated system. But its long-term effect was to hand power to Silvio Berlusconi, who has several times managed to escape conviction by virtue of Italy's statute of limitations. In any case, the activities of a handful of Milan magistrates has had little lasting impact on a society held together by a network of reciprocal favours, in which respect for the rule of law is weak.

This is being brought home again by the campaign for the regional elections that are being held on April 3rd and 4th. The campaign has shown up not only alarming indifference to the law on both sides of the political divide, but also a system of justice that almost invites disdain—vitiated by unworkable legislation, legalistic humbug and a blurred separation between the judiciary and the executive.

Voters will elect governments in 14 of Italy's 20 regions, in the last big test of public opinion before a general election due next spring. The result will affect the overall mood of both the centre-right government and the centre-left opposition as they gear up for the national poll. The biggest battleground is Lazio, the region that encompasses Rome. The governor, Francesco Storace of the

formerly neo-fascist National Alliance, faces challenges on two fronts: from a centre-left candidate, and from Alessandra Mussolini, grand-daughter of Italy's *Duce*, Benito Mussolini.

Ms Mussolini stormed out of the National Alliance in 2003 after its leader, Gianfranco Fini, had disavowed fascism on a visit to Israel. She later formed a party, Social Alternative, which the polls suggest could win as much as 9% of the vote, possibly tipping the balance against Mr Storace. But on March 12th Social Alternative was barred from standing. To cut back the number of small parties, the law requires them to present large numbers of endorsements. Electoral officials announced that hundreds of Social Alternative's endorsements were blatantly faked. One came from a sponsor who was apparently born on a February 31st.

Ms Mussolini denied the forgeries. But, contradictorily, she added that everybody did it and that she was the victim of a plot. Evidence has since emerged to suggest that she is right on both counts. The justice minister, Roberto Castelli, has admitted that the forging of endorsements has been “going on for years”. But he has also said that the law is impractical, as it does not give the parties enough time to gather signatures. As for alleged conspiracy, it has transpired that employees of a firm answering to Mr Storace's regional government hacked into the civil registry to check details of Social Alternative's sponsors.

Opposition leaders expressed outrage, but were noticeably less scandalised by Social Alternative's original alleged ruse. In some regions, though not in Lazio, even left-wing elected representatives were found to have signed Social Alternative's endorsements. Ms Mussolini herself went on hunger strike outside a court to which she had appealed, but the judges still upheld the ban. She then left her mobile home for a meal of salad and lasagne, and announced a further appeal. The same day the cabinet gave the judge in charge of the court that ruled against Ms Mussolini a top job as head of Italy's media watchdog. Both the judge and the government stoutly deny that there is any link between these two events.

As it happens, the court's judgment was later nullified because, on March 22nd, Ms Mussolini secured an entirely different ruling from Italy's supreme administrative court. The court decided that the real issue was not whether the endorsements were fakes, but whether they were properly authenticated by the appropriate official. It later came out that two of the five judges who ruled in Ms Mussolini's favour had held senior positions in a previous, centre-left government. Again, there is no suggestion that they were influenced by their political affiliations. But the affair shows up the fragile credibility of a judiciary whose members can float easily from court to government and back again.

Ms Mussolini is pressing ahead with a campaign that may yet have potentially far-reaching effects. A former B-movie starlet with improbably pneumatic lips and blonde hair, the *Duce*'s grand-daughter is a formidable communicator whose cause has now been boosted by a massive dose of publicity. Mr Berlusconi had hoped that, once she had let off steam in Lazio, Ms Mussolini could be wooed into his broad alliance in time for next year's general election. That looks unlikely now.

AP

Alessandra takes no lip

Her campaign of revenge has infuriated former associates on the right and made her an unlikely darling of the left. Italy's opposition is desperate to oust Mr Berlusconi, not least because it fears that he is systematically neutralising rival sources of power and could become, in effect, impossible to remove. He directly or indirectly controls six of the seven main television channels. He is curbing the freedom of prosecutors. Last week, the Senate approved a constitutional reform that would enhance the powers of the prime minister, weaken those of the president and undermine the independence of the constitutional court—though the reform will need to be endorsed by a referendum.

Italy's opposition leaders, mostly professionals or academics, must envy Ms Mussolini the populist skills they so manifestly lack. In a televised debate with Mr Storace this week, she overwhelmed the governor, who was opining about the family, by repeatedly asking him the price of nappies. Yet in

the long run Ms Mussolini could do her new-found friends more harm than good, by luring them into a betrayal of their principles. Ever since the second world war, the most sacred of these has been anti-fascism. Italy's socialists and progressive Catholics, its environmentalists and its former communists, all need to think hard about whether they really want the help of a woman whose supporters in Milan greeted her earlier this year with loud chants of "*Duce*, *Duce*".

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The Baltic three

Wartime blues

Mar 31st 2005 | RIGA
From The Economist print edition

A 60th anniversary reopens old wounds

WHEN President George Bush visits Latvia, and then the Netherlands, Russia and Georgia, between May 6th and May 10th, his role, says the White House, will be to "honour the shared sacrifice of millions of Americans and Europeans to defeat tyranny, and mark the growth of democracy". In fact, these tasks will be divided in two. The defeat of Hitler 60 years ago will be remembered at ceremonies in the Netherlands and Russia on May 8th and 9th. That leaves the growth of democracy to be celebrated in Latvia on the way in, and Georgia on the way out. In Russian eyes, these latter two choices smack of provocation. They are Moscow's least favourite neighbours, and also the liveliest critics of its lingering imperialist twitches.

Indeed, if the "growth of democracy" in Europe is threatened by any single country today, central Europeans would unhesitatingly point to Russia as the most serious culprit—both for its attempts to block free elections in Ukraine last year and for its support of rebel regimes that have carved out bits of Georgia and Moldova. It has been trying to undermine the stability of the Baltic countries with propaganda and bullying ever since they initiated the break-up of the Soviet Union in 1990-91, and then got rid of their last Russian military bases three years later. Mr Bush's choice of itinerary could be seen as a salute to Russia's wartime past, but also a reproach to its not-quite-peaceful present.

The Balts, along with Poland, have already cast a cloud over the planned Victory Day celebrations in Moscow on May 9th, by questioning Russia's view of its history. The three Baltic presidents say they are eager to celebrate the defeat of Nazism, but not the 50-year Soviet occupation of their countries that went with it. President Vaira Vike-Freiberga of Latvia has accepted an invitation to Red Square; but President Arnold Ruutel of Estonia and President Valdas Adamkus of Lithuania have declined. Poland's president, Aleksander Kwasniewski, says he will go, but he wants Russia to condemn the pre-war Molotov-Ribbentrop pact under which Stalin and Hitler divided Poland between them, and also to acknowledge the post-war sufferings of countries under communism.

Such arguments over history are poisoning wider relations. Last week the Russian ambassador to Lithuania called his host country a "nation of scandal-mongers" where "everyone is dirty". Earlier, the Russian foreign ministry said that Poland was being "dishonest" in tearing "historical events out of [their] context". To the Baltic countries, this is not a matter of history alone. Rightly or wrongly,

they fear that Russia still wants to dominate them—and that, unless it renounces its Soviet past, its imperialist instincts will remain strong. The Poles fear similarly for Ukraine, which they are keen to pull out of Russia's sphere of influence and, one day, safely into the European Union.

Russia has tried to exploit the fears of Balts and Poles to undermine them in the eyes of their new EU partners. It calls them “Russophobes”, obsessed with making trouble for Russia, and with trying to twist EU policy accordingly. Certainly, few old EU members seem to share the new ones' worries. After meeting President Vladimir Putin at a summit with the leaders of Germany and Spain on March 18th, President Jacques Chirac of France said, with no apparent irony, that Europe's relations with Russia held the “keys to peace, democracy and the rule of law...on our continent”.

But to the Balts' and Poles' intense relief, America seems to be coming round to their line, both figuratively and literally. They admired Mr Bush's chiding of Russia for backsliding on democracy when he met Mr Putin in Bratislava in February. His flying visits to Latvia and Georgia will be huge morale-boosters. Georgia especially needs hand-holding. Its stability is under constant threat, and European governments which applauded its “rose revolution” in 2003 have given it little help since.

The Balts are in better shape, but their governments are weak—Estonia lost another last week—and lacking in vision. Latvia and Estonia both need a quiet nudge towards enfranchising their Russian minorities, left after the Soviet occupation, whose continuing (if largely self-induced) statelessness allows Russia to pose as their best protector. Perhaps only an American president could make that point in Riga, and still be seen as a friend, not a critic.

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The Turkish press

Censored

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When freedom of the press clashes with the law

WHEN Otto Schily, Germany's interior minister, banned *Vakit*, a Turkish newspaper, in February because of its consistent anti-Semitic commentary, Turkey's staunch secularists were among the first to leap to the Islamist daily's defence. Oktay Eksi, president of Turkey's (pro-establishment) press council, called Mr Schily's behaviour “shameful” and “anti-democratic”. *Vakit* itself responded with a series of crude cartoons: one depicted Mr Schily as a bear captioned “The German Thing”, and others showed him covered with swastikas and stars of David.

No contradiction in that, at least according to a *Vakit* columnist, Hasan Karakaya. He insists that “the truth is that there was no Holocaust and the so-called gas chambers are a lie.” On this view, the Holocaust was a hoax perpetrated by the Nazis to justify the creation of Israel. But such diatribes clearly violate Germany's rigorous de-Nazification laws. That is why German officials argue that Mr Eksi's concerns about a free press, no matter how genuine, are in this case utterly misplaced. Turkish democracy, some add, would be better served if the media lobby was to level its guns instead at Turkey's penal code, in the process of being revised for the first time in 79 years.

Most Turkish newspapers have joined European Union governments in heaping praise on the new code, particularly for the improvements it makes in women's rights. What they all appear to have missed are provisions that call for sentences of as long as five years for journalists who insult the state or write about its secrets.

It was only recently that journalists twigged the dangers and began taking to the streets in protest. The government has promised to look into their complaints and this week agreed to delay implementing the new law. But journalists are not likely to get much sympathy from the prime minister, Recep Tayyip Erdogan. Since coming to power two years ago, Mr Erdogan has made no secret of his disdain for Turkish newspapers, which he accuses of bias and says he no longer reads.

Last week Mr Erdogan filed a $30,000 lawsuit against *Penguen*, a humorous magazine, for depicting him as a series of animals, including a frog and a snake. The cartoonists did this to show solidarity with a fellow draughtsman who had been fined some $3,500 on charges of assailing the prime minister's honour by depicting him as a cat. As one western diplomat expresses it, “perhaps Mr Erdogan now feels sympathy for Mr Schily, the bear.”

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Swiss newspapers

The old aunt of Zurich

Mar 31st 2005 | ZURICH
From The Economist print edition

A traditional newspaper struggles in a competitive world

IF YOU glance at racks of European newspapers, the *Neue Zürcher Zeitung*, 225 years old this year, and said to be Europe's oldest quality paper, stands out like a tombstone amid bold headlines and colour photographs. Barring a daring switch from its gothic typeface in 1946, the *NZZ* has changed little since the 1930s, when it was banned in Germany for suggesting that Hermann Göring was responsible for the Reichstag fire.

Affectionately known as "*Die Alte Tante*", the *NZZ* prides itself on the background to its analysis. The emphasis is on international news (the paper has 40 foreign correspondents), business, finance and high culture. Features and lifestyle stories are kept to a minimum. Snippets of gossip are out of the question: any story must be backed by two separate sources. As Salomon Gessner, printer, poet and friend of Goethe, who founded the *NZZ* in 1780, put it, the aim is to "catch up with the world".

The *NZZ* still has a reputation as a world-class newspaper. A Zurich banker who is one of the paper's 1,500 shareholders claims it is second only to the *New York Times*. But, as Hansrudolf Kamer, deputy editor, admits, the average reader is now over 50. Falling sales (the paper sells just under 160,000 copies, of which 4,000 are in Germany) and fewer ads have led to a 65% drop in the *NZZ*'s (unquoted) share price in the past five years. Yet, even as Germany's sober-minded *Frankfurter Allgemeine Zeitung* has cut costs and modernised, the *NZZ* clings to high-brow austerity, sometimes holding back big stories so they can be reported "dispassionately".

In the 1930s Thomas Mann, exiled in Zurich, chuckled at the paper's caution. A recent decision to break up long stories with sub-headings was taken only after years of debate in the *NZZ* boardroom, says Thomas Maissen, a professor at Heidelberg and author of one of two new books on the paper's history. Elaborate jargon-filled sentences are now discouraged, but the *NZZ* recoils from widening its appeal. "We don't think it's clever or expedient," says Mr Kamer.

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The French language

Google à la française

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The latest French v English battle

IN THE dimly lit cyber-café at Sciences-Po, hot-house of the French elite, no Gauloise smoke fills the air, no dog-eared copies of Sartre lie on the tables. French students are doing what all students do: surfing the web via Google. Now President Jacques Chirac wants to stop this American cultural invasion by setting up a rival French search-engine. The idea was prompted by Google's plan to put online millions of texts from American and British university libraries. If English books are threatening to swamp cyberspace, Mr Chirac will not stand idly by.

He asked his culture minister, Renaud Donnedieu de Vabres, and Jean-Noël Jeanneney, head of France's Bibliothèque Nationale, to do the same for French texts—and create a home-grown search-engine to browse them. Why not let Google do the job? Its French version is used for 74% of internet searches in France. The answer is the vulgar criteria it uses to rank results. "I do not believe", wrote Mr Donnedieu de Vabres in *Le Monde*, "that the only key to access our culture should be the automatic ranking by popularity, which has been behind Google's success."

This is not the first time Google has met French resistance. A court has upheld a ruling against it, in a lawsuit brought by two firms that claimed its display of rival sponsored links (Google's chief source of revenues) constituted trademark counterfeiting. The French state news agency, Agence France-Presse, has also filed suit against Google for copyright infringement.

Googlephobia is spreading. Mr Jeanneney has talked of the "risk of crushing domination by America in defining the view that future generations have of the world." "I have nothing in particular against Google," he told *L'Express*, a magazine. "I simply note that this commercial company is the expression of the American system, in which the law of the market is king." Advertising muscle and consumer demand should not triumph over good taste and cultural sophistication.

The flaws in the French plan are obvious. If popularity cannot arbitrate, what will? Mr Jeanneney wants a "committee of experts". He appears to be serious, though the supply of French-speaking experts, or experts speaking any language for that matter, would seem to be insufficient. And if advertising is not to pay, will the taxpayer? The plan mirrors another of Mr Chirac's pet projects: a CNN *à la française*. Over a year ago, stung by the power of English-speaking television news channels in the Iraq war, Mr Chirac promised to set up a French rival by the end of 2004. The project is bogged down by infighting.

France's desire to combat English, on the web or the airwaves, is understandable. Protecting France's tongue from its citizens' inclination to adopt English words is an ancient hobby of the ruling elite. The Académie Française was set up in 1635 to that end. Linguists devise translations of cyber-terms, such as *arrosage* (spam) or *bogue* (bug). Laws limit the use of English on TV—"Super Nanny" and "Star Academy" are current pests—and impose translations of English slogans in

advertising. Treating the invasion of English as a market failure that must be corrected by the state may look clumsy. In France it is just business as usual.

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Kosovo's future

After Haradinaj

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Tense moments before final-status talks can begin

THE face of Ramush Haradinaj stares down from billboards and posters across Kosovo's dusty capital. But alongside the images of the former prime minister, now in custody in The Hague, where he faces charges before the Yugoslav war-crimes tribunal, is a clumsily written message: “our Prime has a job to do here”. The point is to suggest that Mr Haradinaj, once a rebel commander in the Kosovo Liberation Army (KLA), may still have a role to play in the province, which has been run as a UN protectorate since 1999.

Mr Haradinaj's supporters, as well as Kosovo's Danish UN proconsul, Soren Jessen Petersen, insist that, during his 100-day tenure of office, the ex-guerrilla fighter was shaping up to be quite a good prime minister. Yet last week, his post was taken by Bajram Kosumi, a former student leader who was not a guerrilla fighter and was previously environment minister. For the first time since Kosovo elected a government of its own in 2001, there are no known former KLA men in power.

Kosovo's (still provisional) government is assuming ever-increasing responsibility as the UN-led administration devolves power in the run-up to talks due to start later this year on the province's final status. Before such talks can begin, according to the longstanding UN mantra, Kosovo must show progress towards a number of internationally imposed standards, in such areas as good democratic governance and respect for minorities (code for the 100,000 Serbs and other non-Albanians still clinging on in Kosovo).

The provisional government declared last week that it hoped to meet most of these standards by June. More hopeful UN representatives agree that progress is being made. Indeed, it may prove to be just enough—so long as there is no relapse in security—to permit the final talks on Kosovo's status to begin this autumn. Among the more vociferous of Kosovo's estimated 1.8m ethnic Albanians, however, patience may be running out. A recent poll taken by the UN itself showed that as many as 75% of Kosovo's Albanians were dissatisfied, one way or another, with the UN mission's progress.

But might hardliners, including ex-KLA men, pick up their guns and stones again, as they did a year ago in a sudden, savage outbreak of violence? It is quite possible. A roadside bomb narrowly failed to kill Kosovo's president, Ibrahim Rugova, two weeks ago. Occasional hand grenades and gunfire are being directed against UN soldiers. Who is behind this violence? A shadowy Albanian rebel group claimed responsibility for the attack on Mr Rugova, though NATO and UN intelligence suggests that Albanian extremists on the political fringes are at work. But the hand of Serbs, keen to disrupt any progress towards independence for their former fief, cannot be discounted either.

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Charlemagne

Europe's battling twosome

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The usual Jacques 'n' Tony punch-up in Brussels

IT HAS become a familiar routine. There is a European Union summit; a row breaks out between Jacques Chirac and Tony Blair; a little later, the two men patch things up. But with Jacques and Tony—as with Punch and Judy—any truce is strictly temporary. It is never all that long before they are back hitting each other over the head with rolling-pins.

So it was last week, at the latest EU get-together in Brussels. Mr Blair went into the summit determined to be nice to Mr Chirac. The French president is facing big trouble at home, where the opinion polls increasingly suggest that the French may vote down the new EU constitution in a referendum on May 29th. Much of the French opposition has focused on the so-called “Bolkestein directive”—a plan to liberalise trade in services. Mr Chirac needed his colleagues to promise to rewrite the directive; Mr Blair and his fellow leaders duly obliged. The British prime minister was thus distinctly unamused when Mr Chirac used his closing press conference to question “the British cheque”, the much-cherished rebate that Britain gets on its contributions to the EU budget. By the time he had got back to London, Mr Blair's irritation was plain. Speaking to the House of Commons, he painted the French in general as reactionaries clinging to a failing economic model.

The two leaders still claim (a trifle implausibly) to get on well personally. Mr Chirac has taken an avuncular interest in Leo, Mr Blair's youngest son, and has even been given a photograph of the infant. But, however warm may be their personal feelings, it has become clear that there is a structural conflict built into the Chirac-Blair relationship. They have diametrically opposed visions of how the EU should evolve, and they are engaged in a struggle over which should prevail.

The Blairite vision is Atlanticist, economically liberal, suspicious of deeper political integration and strongly in favour of further enlargement of the EU to include Turkey and others. Mr Chirac, by contrast, wants to build up the EU as a counterweight to America and has become deeply suspicious of Brussels's liberalising tendencies. Unlike most of his compatriots, however, Mr Chirac has steadfastly supported Turkey's bid for EU membership—perhaps realising that his aim to turn the EU into a world power can work only if it grows in size.

In other respects, though, there is little doubt that EU enlargement has greatly weakened Mr Chirac's entire European strategy, while providing a boost to Mr Blair. In the EU of 15 that existed until 2004, it was still possible for the Franco-German duo to dominate. With the addition of ten more countries, most of them inclined to share Mr Blair's pro-American, economically liberal views, the power balance has shifted markedly. Mr Chirac's frustration with this new situation became evident in the run-up to the Iraq war, when his claim to speak for Europe in his opposition to the war was undermined by the sight of almost all the countries from the “new Europe” lining up on the Anglo-American side. At the time it was reckoned that 16 EU countries were backing Mr Blair and only nine were with Mr Chirac.

The Iraq war may have offered the most graphic illustration of the shift in power within the enlarged EU, but there have been others. In December 2001, when EU leaders were choosing a president for their constitutional convention, Mr Chirac was still able to force through his candidate: Valéry Giscard d'Estaing, a previous French president. In mid-2004, however, the Franco-German pair were no longer able to impose on an EU of 25 their preferred candidate, Belgium's Guy Verhofstadt, as president of the European Commission. Instead, José Manuel Barroso, a former Portuguese prime minister who is both an economic liberal and was a supporter of the Iraq war, got the job. Mr Barroso is now being demonised in France in much the same way as Jacques Delors, a French predecessor, was once demonised in Britain—as a Brussels bureaucrat who is seeking to impose alien and dangerous ideas.

The change of atmosphere within the commission illustrates the shift in the EU balance of power away from Mr Chirac and towards Mr Blair. But the game is far from over. His travails over Iraq have tarnished Mr Blair's image in Europe. Last year's change of government in Spain gave Mr Chirac an important new ally in the shape of José Luis Rodríguez Zapatero, a Spanish socialist who really is socialist. If Silvio Berlusconi were replaced by Romano Prodi in Italy next year, the Chirac wing would gain another ally—although if Angela Merkel also defeats Gerhard Schröder in Germany, she might tack towards the Blair camp.

The new members of the EU in central Europe are not necessarily permanent adherents of the Blair side, either. Several have had second thoughts about Iraq. And they all want to join the European single currency, from which Britain has stood aside. But if Blairite prestige suffered because of Iraq, high unemployment in France has damaged Mr Chirac, whereas the relative economic dynamism of Britain has strengthened Mr Blair.

Constitutional concerns

In their continuing struggle for leadership and influence within the European Union, both the British and French leaders now face identical challenges: the need to win a domestic referendum on the EU constitution. Until a few weeks ago, it looked as if Mr Blair would come off worst. Britain is not due to vote until the first half of next year, and British officials had been bracing themselves for the nightmare in which the 24 other EU countries ratify the constitution and only Britain says no. But the shift in the polls in France has now put the pressure back on Mr Chirac. He himself has argued that a French rejection of the constitution would be a grave blow to his country's prestige and influence within the EU. It might also allow Mr Blair to cancel his own, even trickier referendum in Britain: “a two for one deal”, as one beaming British official puts it.

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Social conservatives after Terri Schiavo

Following their own path

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Getty Images

The problems and the opportunities for George Bush in managing his party's most fervent supporters

ETHICAL issues are not the only ones raised by the tragic battles over Terri Schiavo. The determined effort by Congress and the president to try to save the Florida woman has pushed two political questions to the fore. One, posed by secular Americans and many more Europeans, is that old chestnut: have religious fundamentalists taken over the Republican Party? The other, raised by nervous Republicans, is its apparent opposite: is the conservative coalition beginning to crack up?

The answers to both questions are intertwined. The Schiavo case certainly confirms the power of religious conservatives. But this is not quite the same as saying they have taken over the Republican Party. From the Republicans' point of view, the Schiavo case illustrates a few worrying cracks in the conservative coalition and also the danger of alienating moderate voters; but George Bush, at least, is good at managing these things.

There is little doubt that, in acting as it did in the Schiavo case—calling on federal courts to rule on, and preferably overrule, decisions of lower courts—Congress was responding to the concerns of leaders of the religious right. “He's a man of faith and he acted as he did because it was the right thing to do,” says the Southern Baptist Convention's Richard Land, speaking of Mr Bush. “But the political reality is that if the president and pro-life leaders had not taken extraordinary action to address this extraordinary case, it would have had serious repercussions in our constituency on a whole range of issues.”

That is not something any Republican leader in recent times could safely ignore. Traditional evangelicals form the party's single largest constituency. In 2004, according to John Green of the University of Akron, they accounted for 27% of Mr Bush's total vote, twice as much as any other single group. If you include traditionalist Catholics and other religious types, “traditionalist Christians” cast more than two-fifths of Mr Bush's total vote.

What matters far more for Republican members of Congress is that religious voters are disproportionately influential in their local parties. A study in 2002 by a magazine, *Campaigns and Elections*, found that, of the 31 states Mr Bush won in 2004, the Christian right was strong in 15 and weak in none. In all, its influence had grown in 15 states and fallen in only eight. It has probably grown further since then.

For Republicans in the House of Representatives, gerrymandering has made this even more important. Their seats are safe from Democrats, so they have no wish to offend people with the power to deselect them in primary contests.

The Schiavo case is only the most prominent example of religious conservatives making their weight felt in Washington, DC. They are prominent in the attempt to introduce a constitutional ban on gay marriage, in restrictions on the use of stem cells for medical research and in the White House's “faith-based initiative” to encourage religious institutions to get more involved in social policy.

Does this represent a takeover? This week John Danforth, a former senator from the moderate wing of the party, argued in the *New York Times* that it did: “by a series of recent initiatives, Republicans have transformed our party into the political arm of conservative Christians,” he wrote. But there are several reasons for thinking this is an exaggeration.

To begin with, their power remains divisive within the party, accentuating the split between social conservatives, such as John Ashcroft, the extremely religious former attorney-general, and more libertarian sorts, such as California's governor, Arnold Schwarzenegger. At a recent forum sponsored by the Hudson Institute, social conservatives argued that governments should aim to encourage public virtue, others that government should get off people's backs. Leon Kass, the head of the president's bioethics council, argued that “it will be no great victory...if families decay, if the general moral vision diminishes”; Grover Norquist, the head of Americans for Tax Reform, a lobby group, replied that governments should not regulate private behaviour unless it was criminal.

In the Schiavo case, social conservatives obviously prevailed in Congress. But they did not do so *nem con*. The hardline leader of the House, Tom DeLay, may have insisted that individual issues of life and death should trump concerns about legality; but there were also traditional conservatives, concerned about due process of law, such as Senator John Warner of Virginia. And the Schiavo battle was not a straight partisan affair. Almost 50 Democrats voted with the Republicans, many out of concern for the rights of the disabled. This was an issue where “social conservatives” included Jesse Jackson, who visited Mrs Schiavo's parents this week.

The religious right, then, is influential. But it was not the sole influence in the Schiavo affair. And in many ways, its influence is confined to specific issues of “the culture of life”—abortion, stem cells and the end of life. On some of the most important of these, the president cannot do the religious right's bidding, even if he may want to. He cannot, for example, outlaw abortion, though he can influence the Supreme Court's opinions on the matter by appointing conservative judges.

On other issues, such as his apparent embrace of civil unions for gays, and his comment that a constitutional ban on gay marriage cannot get through the Senate, Mr Bush is going against the religious right's demands. In this area, his attitude seems almost defensive, using symbolic issues as a sop to his Christian backers.

United on life, but not death

For their part, the religious groups do not always agree on what “the culture of life” means. One of the most striking features of the Schiavo affair has been the close association between conservative

Catholics and evangelicals. Yet their theological positions on some “life issues” differ. Catholics oppose the death penalty, evangelicals have no problem with contraception. This limits their co-operation.

In issues that go beyond the culture of life, relations between the White House and conservative Christian leaders sometimes seem almost frosty. In January, a group of religious leaders wrote to Karl Rove, Mr Bush's main political adviser, expressing frustration that the president was being “defeatist” on the gay-marriage ban and was instead seeking to persuade voters to back Social Security reform, which some Christian leaders, such as Gary Bauer, oppose. The White House in turn is frustrated by the lack of religious support for reforming the pension system.

Lastly, Christian groups are divided on how far to expand their influence. Rich Cizik, a vice-president of the National Association of Evangelicals, argues that religious groups should seek to broaden their agenda by including things like fighting poverty and protecting the environment. That, he argues, would also increase their impact. Others think this would dilute it, and want to maintain the focus on life issues and education.

Certainly, the power of religious groups has not yet posed a problem of day-to-day management of the Republican Party for Mr Bush. Religious groups may be getting some of their wishes granted by Congress, but corporate donors are getting at least as many (tax cuts, tort reform, bankruptcy reform, drilling for oil in Alaska). Mr Bush has not yet had to make trade-offs between his core constituents.

The other way for the Republicans to overreach is by frightening off independent voters. Opinion polls on the Schiavo case showed that large majorities of voters—including among evangelicals—thought Congress had overstepped the bounds in intervening in what was seen as a personal matter. As Republicans in California discovered in the early 1990s, a party that gains a reputation for intolerance can swiftly suffer grievously for it.

The Republicans' main bulwark against such accusations of intolerance is Mr Bush's personal popularity and his strong stance on the war on terror. Moderate voters seem to forgive the president's interventions on behalf of the Christian right, even when they themselves disagree with those decisions (as with stem cells, the federal gay-marriage amendment and the Schiavo case).

What is less clear is whether voters will take the same indulgent view of the next generation of Republican leaders, such as Senator Bill Frist or Mr DeLay. Thanks largely to his response to September 11th, Mr Bush won the trust of a majority of voters. The next generation of leaders seems to be working harder to win the trust of religious leaders. In doing so, they risk dividing their party, and letting the Republican movement be defined by religious groups who already strongly influence its representatives in Congress.

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Assessing Terri Schiavo

She opened Pandora's suitcase

Mar 31st 2005
From The Economist print edition

An ordinary life and an extraordinary death that will haunt America

AP

Happier days

WHEN they were children, Terri Schiavo's brother Bobby accidentally locked her in a suitcase. She tried so hard to get out that the suitcase jumped up and down and screamed. The scene predicted, horribly, how she would end, though by that stage she had neither walked nor talked for more than 15 years. By the time she finally died on March 31st, her body had become a box out of which she could not escape.

More than that, it had become a box out of which the United States government, Congress, the president, the governor of Florida and an army of evangelical protestors and bloggers would not let her escape. Her life, whatever its quality, became the property not merely of her husband (who had the legal right to speak for her) and her parents (who had brought her up), but of the courts, the state, and thousands of self-appointed medical and psychological experts across the country.

The chief difference between her case and those of Karen Quinlan and Nancy Cruzan, much earlier victims of Persistent Vegetative State (PVS), was the existence of the internet. When posted videotapes showed Mrs Schiavo apparently smiling and communicating with those around her, doctors called these mere reflex activity, but to the layman they seemed to reveal a human being who should not be killed. On March 20th, a CAT scan of Mrs Schiavo's brain—the grey matter of the cerebral cortex more or less gone, replaced by cerebrospinal fluid—was posted on a blog. By March 29th, it had brought 390 passionate and warring responses.

All this outside interference could only exacerbate the real, cruel dilemmas of the case. After a heart attack in February 1990, when she was 26, Mrs Schiavo's brain was deprived of oxygen for five minutes and irreparably damaged. For a while, her family hoped she might be rehabilitated. Her husband Michael bought her new clothes and wheeled her round art galleries, in case her brain could respond. By 1993, he was sure it could not, and when she caught an infection he did not want her treated. Her parents disagreed, and claimed she could recover.

From that point the family split, and litigation started. Each side, backed by legions of supporters, accused the other of money-grubbing and bad faith. A Florida court twice ordered Mrs Schiavo's feeding tube to be removed and Jeb Bush, the governor of Florida, overruled it. The final removal of the tube, on March 18th, was followed by an extraordinary scene, in the early hours of March 21st, when George Bush signed into law a bill allowing Mrs Schiavo's parents to appeal yet again to a

federal court. But by then the courts, and two-thirds of Americans, thought that enough was enough. On March 24th the Supreme Court declined to hear the case.

Mrs Schiavo's own thoughts on the matter were fished out of the past and presented as each side wanted them to be. She never wanted to live on a machine, said her husband and her brother-in-law. She had wanted Karen Quinlan to be left at peace on her ventilator, said her parents. Her upbringing was Catholic, but the church disapproves of the officious prolonging of life by machines. The chances are that she, like most young, active people, had barely thought about it, had never made a will, and probably never dreamed that her remarks at her grandmother's funeral lunch (“If I ever go like that, just let me go”) would return to dominate decisions about her fate.

Her life was so ordinary that accounts of her hardly ever mentioned what she had been. She was brought up in the leafy suburbs of north-eastern Philadelphia, a quiet, plump girl who kept gerbils and a labrador and wanted to be a vet. At Archbishop Wood High School she was a moderate student, and dropped out of junior college to become a clerk for an insurance company. She worried constantly about her weight, sometimes dieting so hard that her bones showed, and it may have been bulimia that caused her heart attack. Michael Schiavo was the first boy she had dated; they got engaged after five months. She was allergic to salad and Benadryl, and adored “Starsky and Hutch”.

Her “supporters” outside the Supreme Court last week, standing in silence with the word “Life” taped over their mouths, presumed to represent her views. She, dying slowly, had no views. To take the side of life, rather than death, is a fundamentally good philosophy; and an autopsy may yet show (though this seems doubtful) that her medical state was less appalling, and irreversible, than it seemed.

Nonetheless, both the public outcry about her and the frenzy of politicians to save her were also artificially inflated by technology, a culture of litigation and the power of the Christian right. An immense cloud of public interest came to conceal a dreadful, but private, dilemma that was for doctors and family members to solve with their consciences and their priests. As it was, in the current climate, there will probably be more Terri Schiavos.

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Megan's Law

The net widens

Mar 31st 2005 | BUTLER CITY
From The Economist print edition

Pennsylvania names and shames more of its paedophiles

IT IS Thursday afternoon on a pretty, upper-middle-class street lined with snowy yards, white picket fences and American flags. An elderly couple are off to see their great-grandchildren, carrying bags of sweets to their car. When asked about their neighbour, their smiles quickly fade. Yes, they know that Mr Smith (as we shall call him) is a paedophile, the grandmother says, looking anxiously at his car. Their neighbourhood has not been the same since he was released from prison two years ago. "We definitely feel nervous bringing the children around."

Mr Smith's identity and his address are known to the inhabitants of Butler City, a small steel town north of Pittsburgh, because both are published on Pennsylvania's "Megan's Law" website. All 50 states have set up such websites, named after Megan Kanka, a New Jersey girl who was raped and murdered in 1994 by a convicted paedophile.

Pennsylvania set up its list four years ago; until this January it included just 65 "sexually violent predators" like Mr Smith, deemed to be dangerous by a state board. But conservatives, parents and law-enforcement types, including Lieutenant Janet McNeal, who heads the Megan's Law section of the state police department, persuaded the legislature to add names of sex offenders as well as predators.

This new longer list includes rapists (both of minors and adults), pimps and pornographers (where children have been involved) and anybody over 18 involved in any form of non-consensual sex with people under 18. The result is a much broader list, naming 7,100 offenders. It does not give the addresses of the non-predators, but it does give their zip codes and aliases.

Lieutenant McNeal is delighted: with more people aware of the offenders, she believes there is less danger that they will find new victims. She thinks the new list is particularly good at snaring offenders who have moved to Pennsylvania in order to avoid being listed on the internet: one in five of the listed offenders comes from outside the state.

Pennsylvania is part of a trend; New York, too, is about to expand its Megan's List. The bigger list is certainly popular. On the day it was unveiled, 120,000 Pennsylvanians flocked to the site and, within two weeks, 500,000 people had taken a peek, some of them many times. (The website recorded 87m hits.)

Parents in Butler City seem to draw comfort from knowing either precisely or roughly where offenders live. A young mother living down from Mr Smith says her children "know not to go over that way." Others are shocked by the numbers. The website lists nearly 80 offenders in Butler County with crimes ranging from indecent assault to involuntary deviate sexual intercourse and

rape. Half of these people, including three predators, live in Butler City. For a town of just 15,000 that seems an awfully big number, the young mother says.

The locals want more information. The owner of a clothing store, who has six children, says his wife consults the Megan's Law site weekly and wants addresses for every offender, not just the dangerous ones. “The thought of someone touching my kids,” he starts, then looks away. “We live here to avoid this.”

There are some protections for the named. The site says the Pennsylvania police will prosecute people who harass the registrant or his family. Police have been trained to deal with complaints from both offenders and residents, but the client supervisor at Butler County's police department says he has received none yet.

Larry Frankel, the legislative director of the Pennsylvania American Civil Liberties Union, thinks the new law will eventually be shown to be counter-productive. Naming and shaming jeopardises offenders' chances of hanging on to their jobs and families (and losing either increases the chance they will offend again). It also discourages friends and family from reporting possible offenders. Mr Frankel's office is now fielding calls from worried parents wondering how their son will fare out of jail now the neighbours will know what he did. The ACLU has backed various attempts to challenge parts of the law in state courts; none has been successful.

The new broader list has already cost some people their jobs. A youth-basketball coach in Norristown has just been sacked after his name was found on it. And some civil-liberties experts say that vigilante attacks are only a matter of time. But, judging by Butler City, the main effect has been to force the offenders to lie low. None listed wanted to be interviewed; most either give no telephone numbers or ones that do not work. The grandmother says she never sees Mr Smith, though she adds that his wife acts over-cheerful, “most likely to compensate”.

Lieutenant McNeal understands the offenders' discomfort, but she says her concerns for public safety supersede all this. The young mother on Mr Smith's street agrees. “I'd prefer no offenders around,” she says. “But now I know, I can keep to my side of the street, and he can keep to his.”

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The oil-for-food scandal

Kofi, Kojo and a lot of shredded documents

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There are still too many unanswered questions at the United Nations

KOFI ANNAN, the United Nations' embattled secretary-general, claims to have been “exonerated” by the Volcker committee's second report into the organisation's oil-for-food scandal. He was not. The committee, chaired by Paul Volcker, a former Federal Reserve chairman, did indeed find no evidence of impropriety by Mr Annan in the UN giving a hefty contract to Cotecna, a Swiss firm that employed his son, Kojo. But the report is riddled with unanswered questions and ambiguities.

Sorry, dad

Kojo, in particular, comes in for damning criticism. Mr Annan's British-university-educated son is accused of repeatedly lying, of seeking to conceal the true nature of his relationship with Cotecna, of deliberately deceiving his father, and of refusing to co-operate fully with the committee. The committee will continue to investigate his role in Cotecna's selection for the contract, and his “financial dealings with respect to the [oil-for-food] programme”.

In December 1998, Cotecna was awarded the contract to inspect humanitarian goods coming into Iraq on the ground that it was the lowest bidder. Kojo had joined Cotecna in 1995, when he was 22, on the advice of Michael Wilson, a vice-president of the Swiss-based company. Mr Wilson's father, Ghana's former ambassador to Switzerland, was a long-standing friend of the Annans.

A year after his father's appointment as secretary-general in January 1997, Kojo resigned as a modestly-paid Cotecna employee, but was promptly re-hired as a consultant on a much higher fee, supposedly because of his “strong connections to decision-makers in Nigeria [where his mother came from] and Ghana [Kofi's birthplace]”.

Cotecna and Kojo insist he never sought to exploit his father's position. Indeed, they at first claimed they were both so anxious to avoid any possible conflict of interest that Kojo resigned his consultancy on October 9th 1998, the same day as the UN invited Cotecna to bid on the inspection contract, and that after the end of the normal three months' notice, he received no further remuneration. This was a blatant lie, as both now have admitted.

From 1999 until 2004, Kojo continued to be paid handsomely under a “non-competition” agreement banning him from working for other inspection companies in Ghana and Nigeria, and in consultancy “expenses”. Channelled through other companies, these payments amounted to at least $178,000 and possibly as much as $484,000, the committee says.

Both Cotecna and Kojo deny he had anything to do with the firm winning the initial $5.2m six-month inspection contract or with its repeated extensions until 2003. Kojo admits he was in New York in the autumn of 1998, and was staying with his father on the day that the inspection contract was put out for tender, but claims he was there to further his business contacts among the African delegations attending the UN's General Assembly. The committee appears unconvinced, pointing out that Kojo had close contacts in the UN's procurement office. After agreeing to an initial interview, Kojo has refused all further co-operation with the investigation.

Iqbal Riza, Mr Annan's former chief-of-staff, is also censured. The day after a Security Council resolution in April 2004 welcoming Mr Annan's decision to set up the Volcker committee of inquiry into the oil-for-food scandal, Mr Riza authorised the shredding of all his office's “chronological files” covering the years 1997-99.

He claimed his assistant was simply clearing out his cluttered filing system. But just ten days earlier, he had written to the heads of the nine UN-related agencies instructing them “to collect, preserve and secure” all records relating to the $64 billion seven-year programme, wound up at the end of 2003. In June 2004 Mr Annan sent similar instructions to all UN staff members. But Mr Riza's files continued to be shredded for another seven months.

Although the committee seems ready to accept Mr Annan's repeated assertions that he knew nothing of Cotecna's interest in the inspection contract, it points to certain oddities. At first, it says, Mr Annan denied having had any contact with Cotecna's owner, Elie Massey, prior to the award of the contract. But he subsequently remembered that they had met twice, once in February 1997, shortly after his appointment as secretary-general, and again in September 1998 at a “private” meeting arranged by his son to discuss the possibility of setting up a lottery to raise money for the UN.

Mr Annan says that the first he knew anything about Cotecna's bid for the UN contract was when the *Sunday Telegraph* ran a story in January 1999 revealing Kojo's relationship with the company. He immediately asked Mr Riza to investigate a possible conflict of interest. The very same day, he received the results of what the committee describes as a wholly “inadequate” inquiry stating that Kojo's connection with Cotecna had been unknown to the UN's procurement officials and that his employment was now anyway at an end. Mr Annan took no further action.

The committee's main conclusion is carefully worded, not to say opaque. Bearing in mind the “credibility” of the witnesses, it finds that “the evidence is not reasonably sufficient to show that the secretary-general knew that Cotecna had submitted a bid” for the contract. Furthermore, there was “no evidence” that Cotecna's eventual selection was “subject to any affirmative or improper influence of the secretary-general”.

This is hardly the full exoneration that Mr Annan wanted. Some of his many American critics are once again baying for his blood. Asked this week if he would resign, Mr Annan's answer was clear: “Hell, no!”. But his reputation has been besmirched, his credibility undermined and his moral authority badly eroded.

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South Carolina's schools

Shades of the past

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A voucher scheme brings back unwelcome memories

IN 1984, Mark White, then governor of Texas, gave South Carolina's governor, Richard Riley, a pair of cowboy boots. Mr Riley promptly vowed that the boots would stay on his feet until the South Carolina legislature passed his package to reform the public schools. Several weeks later, he prised them off. After an election-style campaign, his cherished Education Improvement Act had got through. It ushered in one of the country's most successful programmes—so successful that, on the strength of it, Mr Riley became Bill Clinton's secretary of education.

South Carolina's current governor, Mark Sanford, who is a Republican, is now campaigning as hard for another controversial education bill, which Mr Riley is opposing. Mr Sanford's Put Parents in Charge Act would provide tuition tax-credits to parents who want to teach their children at home or send them to private or parochial schools. Competition from private schools, he feels, will force public schools to improve.

Mr Sanford's proposal is not actually a full-blooded voucher programme—he is offering tax-credits for private education rather than direct help. But the prospect of parents choosing where to spend their education money has stirred up opposition from familiar sources—particularly from teachers' groups and their allies in the Democratic Party.

Inez Tenenbaum, the state superintendent of education, moans that Mr Sanford's scheme would cripple the public-school system. According to a Census Bureau report, South Carolina already spends less per pupil than 31 other states; Mr Sanford's scheme would be paid for out of the state's general revenues, so it would mean less money for other public services, including schools and teachers.

Less predictably, blacks, who make up 30% of the state's population, also oppose the bill. This seems strange, since voucher schemes have proved very popular among black parents elsewhere (they offer an escape out of the wretched urban schools where so few Democratic honchos choose to send their own children). But in South Carolina, where the Confederate flag was taken down from the statehouse dome only a few years ago, the proposed legislation has quite different historical connotations.

Blacks remember that in 1963 South Carolina's governor and legislature, determined not to integrate the public schools, attempted to help white students go to private schools by giving them tuition grants; this was called “freedom of choice”. Three years later the Supreme Court ruled the Tuition Grants Act unconstitutional.

Now opponents say that tuition tax-credits would in effect re-segregate the state's schools, with whites fleeing to private schools and public schools becoming increasingly black. This has been the

trend for some time (Mr Sanford is not the first white in the state to send his children to private schools). But opponents claim the new bill would speed up the process.

Religion, too, is hovering just off centre-stage in the tuition tax-credit debate. Conservative Christian groups are staunch backers of the idea, which would certainly help home-schooling and religious schools. If Mr Sanford gets the bill through, it would surely help any ambitions he has to run for the presidency in 2008.

Whatever their ultimate fate in South Carolina, there is no doubt that tuition tax-credits are gaining in popularity across America as a form of “vouchers lite”. Six states—Minnesota, Iowa, Florida, Pennsylvania, Illinois and Arizona—have statewide tax-credit programmes, most of them approved in the past few years. In Arizona, a bill is making its way through the legislature that would expand tuition tax-credits so that corporations could provide scholarships for students who want to transfer from public to private schools. But in all these states, race is a less emotional issue than it is in South Carolina.

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Wal-Mart and the Big Apple

Not in my aisle, buddy

Mar 31st 2005 | NEW YORK
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New York City's politicians are trying to box out Wal-Mart, rather unfairly

AS IT remorselessly advances from suburbs to more urban areas, Wal-Mart has encountered staunch resistance from California to Connecticut. But no city has been more zealously hostile than New York. “We're giving them a New York welcome,” is the wry boast of Congressman Anthony Weiner, a mayoral candidate. This week he led a Times Square rally against the hard-nosed store he calls “an adjunct of China”.

Since Wal-Mart declared New York a “frontier” in January, it has discovered that that is a tough place to be. A plan to build a store in Queens was canned when the developer couldn't stomach the controversy it caused with local groups. Now the city council wants to blacklist the firm.

At present, the council cannot bar a company from entering New York simply because it doesn't like its business habits. It may examine land-use issues, such as the store's potential impact on traffic. But a new bill would make company policy a deciding factor in the approval process. Any “big-box” retailer, with more than 85,000 square feet (7,900 square feet), would face a licensing review.

Over the course of two hearings, the retailer would have to specify its economic impact on the community. That looks like a set-up for the Wal-Mart Free NYC Coalition (which includes a lot of unions and grocery owners) to explain how Wal-Mart would undercut local businesses, provide its workers with little health care and force competitors to cut wages and benefits. But Wal-Mart also has a strong case to make. Kathryn Wylde, president of the pro-business Partnership for New York City, argues that parts of New York's outer boroughs are underserved by retailers. Rather than forcing New Yorkers to drive to Wal-Mart stores in the suburbs, why not keep shoppers and tax revenue within the city?

But there is a catch. Whether or not the store fits in with a community, the council's bill would allow the Commissioner of Consumer Affairs to withhold a licence if the company had “been involved in excessive employment-related claims”. Because Wal-Mart has been barraged with lawsuits, the commissioner could deny a licence whenever he saw fit. The bill would protect the interests of New York's grocers very effectively—Pat Purcell, the local organiser for the United Food and Commercial Workers union, admits that he was “really involved” in creating it.

There is more. Another city council bill, aimed at easing the city's health-care costs, would require five industries, including big-box grocers, to supply workers with a “prevailing” standard of health care (as determined by the city's comptroller), or pay the city a fee to cover the cost of a family health-care plan for each of its employees. Some 39 of the council's 51 members support the bill—enough to override a veto from the mayor, Michael Bloomberg.

Municipal socialism may seem an odd strategy for the world's capital of capitalism to embrace. But for the Big Apple, heavily taxed and unionised to the hilt, it is more or less second nature. And as Paul Sonn of the Brennan Centre for Justice, a New York think-tank, points out, the new bills are within the council's purview. State law gives the city the power to regulate businesses and protect the “safety, health and well-being” of its workers. Indeed, Chicago is considering two bills that would require large retail stores to supply their workers with a “living wage” and a fixed level of health care. And as Wal-Mart continues to expand, other cities may well pass similar big-box laws.

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“What's good for Wal-Mart is good for America”: a debate between *The Economist* and the *Nation* in New York on April 6th 2005

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The delights of supermax prisons

Hell on earth

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The "worst of the worst" prisoners sue for due process

RARELY do the inmates lay eyes on each other. They are kept behind solid metal doors that forbid any conversation. They are allowed out of their cells for just five hours a week—but not before being shackled, strip-searched and having their hands clamped. Until recently, this precious time was spent alone inside in a locked room.

The Ohio State Penitentiary is one of America's 30-odd high-maximum security or "supermax" prisons for the "worst of the worst". The 504-cell facility was built in the wake of a murderous prison riot in 1993. People are sent there not on the basis of their crimes, but because they are disruptive or dangerous.

But a group of prisoners has sued the state. They demand the right to due process before being transferred to the supermax, because it represents a leap up from any other prison and also extends the time behind bars (its inmates are no longer eligible for parole). They want a proper hearing with advance notice of the evidence against them, the right to call witnesses in their defence and a written account of the reasons for transfer. At present, rulebreakers are sent to a summary prison panel, and its recommendations can be trumped by a shadowy bureaucrat called the chief of the bureau of classification.

A federal district court and the 6th Circuit Court of Appeals have sided with the prisoners. In 2002, the state agreed to take all the mentally ill inmates out of the prison, improve the medical care and build an outdoor space for the prisoners to exercise (one inmate had not been outdoors for four years). But the state said no to fuller hearings, which is why the Supreme Court heard the case this week.

The constitution says nobody can be deprived "of life, liberty or property, without due process of the law". Although the inmates forfeited some liberties when they were convicted, the Supreme Court ruled in 1995 that they still have a "liberty interest" that entitles them to another round of due process if they face an "atypical and significant hardship".

The state of Ohio admits that its supermax prison rises to this level; the argument is about what sort of process the prisoners are due. Ohio says the current panel hearing is enough, and that putting them in the supermax is "about safe and effective prison management, not punishment."

A group of prison officials from around the country are supporting the prisoners. They point out that supermax prisons are meant to deter bad behaviour in prisons; that will not happen if prisoners think they are sent there arbitrarily. Without strict hearings, prison officials are tempted to dump their more troublesome charges—the complainers and the mentally ill—in the supermax or to use it to alleviate overcrowding. Some prisoners have inexplicably jumped several security levels after

breaking a rule, and been thrown into the supermax over the recommendations of their warden and their review panels.

Once inside the Ohio supermax, it is hard to get out. In one year, half those recommended to leave were over-ruled by the chief of the bureau of classification. The district court judge wondered whether the state wanted to keep the supermax full to justify its cost. Certainly, an empty supermax would be embarrassing for local politicians.

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Chile

Writing the next chapter in a Latin American success story

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From The Economist print edition

Latin Photo

Under Ricardo Lagos, Chile has become more democratic and economically more resilient. His successor needs to make it better-educated and more innovative

Get article background

THE southern-hemisphere summer has given way to autumn but the sun is still shining strongly on Chile and on its president, Ricardo Lagos. Last month, Mr Lagos, a moderate Socialist, embarked on the final year of his term basking in a popular esteem rare for someone who has already been in office for five years. One reason is that the economy, after several slack years, is once again growing strongly. But there are deeper reasons for Chile's new contentment. While in many other Latin American countries the prospects for achieving development and full democracy are still in question, some Chileans are starting to feel that both are in their grasp. And across the region, both left and right praise the “Chilean model”—though they like different things about it.

Perhaps the most startling change is that Chile is starting to feel more like a normal democracy. During the 1990s, a centre-left coalition (called the Concertación) governed in the shadow of General Augusto Pinochet, the country's dictator of 1973-90. Sensibly, the Concertación maintained many of the dictatorship's free-market economic reforms, but it was also obliged to accept what Mr Lagos calls “authoritarian enclaves” in the constitution. These are to be swept away at last, in a reform which Congress is likely to approve by a large majority later this year. This measure will allow the president to fire the armed forces' commanders, and abolish nine unelected senators “designated” by the armed forces and other bodies.

General Pinochet is now an unloved and irrelevant figure. His decline began with his arrest in London in 1998 on human-rights charges. Emboldened, Chilean judges went on to unpick parts of the dictatorship's amnesty of its own abuses: more than 300 retired officers, including 21 generals, are now in jail or facing charges. A harrowing government-commissioned report on torture last year breached the wall of silence around the horrors that were inflicted on some 30,000 people. For the first time, the army as an institution admitted and apologised for abuses previously blamed on individuals. Finally, revelations that General Pinochet held several passports and that he, his family and friends possessed 128 bank accounts in the United States with funds totalling perhaps $19m, undermined his claim to have been a disinterested public servant.

In parallel, there has been “a wider cultural change” in a very conservative society, Mr Lagos told *The Economist*. He points to the approval of a divorce law and the abolition of the death penalty. Perhaps the most tangible sign of Chileans' new mood is that, if the opinion polls are right, they are likely to choose Michelle Bachelet as Mr Lagos's successor in an election in December. Only a few years ago, that choice would have seemed almost unthinkable, on several grounds.

For a start, a victory for Ms Bachelet, a Socialist, would mean a fourth consecutive term for the Concertación. Second, in a traditionally male-dominated society, her only rival for the coalition's nomination is another woman, Soledad Alvear. Third, Ms Bachelet, a paediatrician, has an unconventional background. Her father, an air-force general, died after torture by the dictatorship. She has three children by two different men, neither of whom she lives with. She says that far from rejecting her, many Chileans identify with her for these reasons: “I am an ordinary person...I have a different sort of family, but one that is similar to a third of Chilean families.”

Ms Bachelet served as minister of health and then of defence under Mr Lagos but her rise has been swift. As a politician she is relatively untested. Her popularity stems from a demand for a new kind of politics, with more openness and equality before the law, says Marta Lagos, who runs the Chilean branch of MORI, a polling firm. By picking a female candidate, the Concertación may manage to disguise continuity as change. Even so, it cannot afford complacency. In 2000, Joaquín Lavín, then as now the candidate of the right-wing opposition Alliance, polled 48.7%.

The fiscal rule

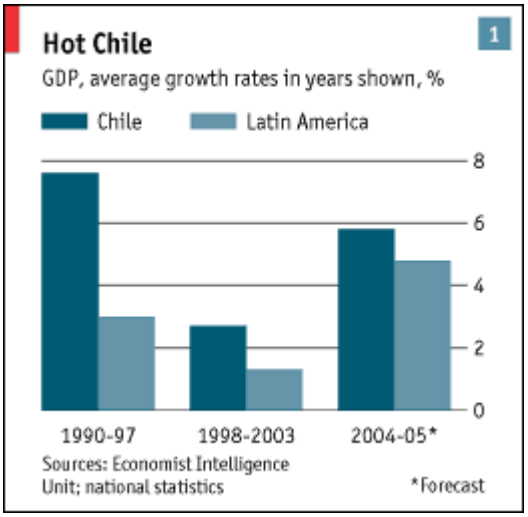
Whoever wins faces some big challenges, especially economic ones. For example, economic growth remains uncomfortably dependent on copper, which last year accounted for 45% of exports and whose price has been at record levels.

But even the government's opponents give it much credit for its economic management. Like the rest of Latin America, Chile was buffeted in the late 1990s by the jitters of investors in emerging markets. But its economy held up much better than the rest of the region (see chart 1). Last year, it began to grow strongly again. This new-found resilience owes much to two decades of stable macro-economic policies, and in particular to the counter-cyclical fiscal policy developed by Mr Lagos's government.

This takes the form of a fiscal rule which requires the government to have a fiscal surplus of 1% of GDP when the economy is growing at its potential (as defined by an independent panel of experts) and when the copper price is at its expected long-term average (as forecast by a second panel). The upshot is that Chile has Latin America's best credit rating, public debt stands at just 12% of GDP, and—unlike the neighbours—the government was able to temper recession by spending more without unsettling the financial markets.

Barring big shocks in the world economy, Chile will continue to grow by at least 5.5% a year until 2007 or beyond, says Nicolás Eyzaguirre, the finance minister. Keep that up for

another ten years and Chile will have reached the level of income per head enjoyed today by countries such as Portugal or Greece, he adds. But can Chile keep it up?



Some Chileans blame the Concertación for a fall in the economy's potential annual growth rate, from 7% in the 1990s to 5% today. “To grow strongly, we need to emphasise deeper, more competitive and more flexible markets,” says Cristián Larroulet, an adviser to Mr Lavín. A law that gave workers more rights is blamed for a still-high unemployment rate of 9%, and especially for depriving women and young people of work. But Vittorio Corbo, the president of the (independent) Central Bank says that, after a lag, the growing economy is now creating jobs fast. The test of the labour market will be whether or not further growth sees a fall in unemployment to 6% or less, he says. While there is disagreement about the labour market, there is a consensus about some of the other challenges that Chile must meet.

The Casablanca valley is as good a place as any to get a sense of the possibilities and problems. Twenty years ago, it was an unremarkable place of dusty farms and of traffic jams clogging the narrow road from Santiago, Chile's capital, to Valparaíso, its main port. Today, mile after mile of newly planted vineyards carpet the valley floor. They produce top-quality white wines in a country that has traditionally specialised in *vino tinto*. The narrow road has become a gleaming new toll motorway, built and maintained under a private-public partnership. Beside it stands the unobtrusive new laboratory of Vitro Centre Chile.

In 2004, its first year, the laboratory turned out 1.7m partially fattened lily bulbs, using up-to-date biotechnology. Vitro Centre is a joint venture between local investors, Fundación Chile (a public-private technology agency), and a Dutch firm which provided the know-how and which is buying much of the initial output. The aim, says Jaime Kong, Vitro Centre's boss, is that Chile will become a fully-fledged producer of bulbs—whose gestation is a complex, three-year process—creating a new export industry in the process.

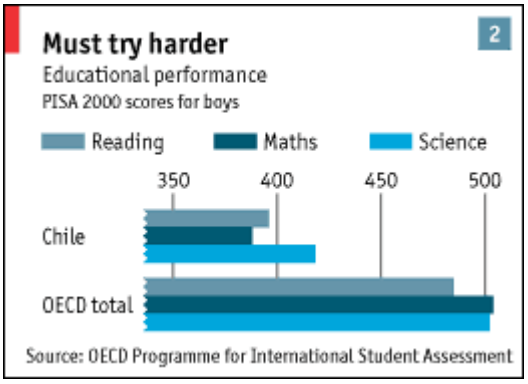
Too little ventured

The problem with such ventures is that there are too few of them. To continue to prosper, Chile needs to diversify its exports more. To that end, Mr Lagos's government has signed trade agreements with the United States, the European Union and South Korea. But to take advantage of these, the economy needs to become more efficient. A study of the beef industry by McKinsey, a management consultancy, found that a typical Chilean ranch is only 12% as productive as its counterpart in the United States; the figure for meat processors was 35%. Poor management, lack of technology and insufficient collaboration among producers and between them and government were all to blame.

Studies by the World Bank and others have found that Chile innovates surprisingly little. Spending on research and development has increased but at 1% of GDP remains low. Officials argue that these figures do not reflect innovation through the import of machines and best practice from elsewhere. And unlike many other Latin American countries, Chile does have a national innovation system. Two public bodies, Corfo and CONICYT, give grants and loans totalling $300m a year to firms and universities respectively. A planned royalty on mining profits will raise some $185m a year —at the forecast average copper price—for a new innovation fund. The opposition argues that the public sector will not spend this well. Officials counter that the countries which Chile seeks to emulate—New Zealand, Ireland, Finland—have public policies for research and innovation. The problem in Chile, they say, is that universities and the private sector do not work together enough.

Another big problem is education. Coverage has expanded dramatically. Three-quarters of pupils now complete secondary education, up from half in 1990. The school day is being lengthened. In

1990, there were only 245,000 in higher education; now there are 600,000. But Chilean pupils perform poorly in international tests (see chart 2), though no less so than Argentines or Mexicans. The opposition wants to give more autonomy to schools. José Joaquín Brunner, an educationalist who advises Ms Bachelet, argues that extending pre-school provision and reforming teacher-training is more important. Either way, the next government faces a battle with the teachers' union.



A third debate concerns inequality and fairness. Poverty has fallen sharply in Chile (from 39% in 1990 to 19%) but the distribution of income remains much more unequal than in such countries as Greece and Portugal or Ireland and New Zealand. Mr Lagos trusts that in the medium-term better education will close the gap. Meanwhile, his government has also launched *Chile Solidario*, a pioneering effort to help those in extreme poverty.

According to Yasna Provoste, the minister responsible, this involves social workers seeking out the poorest families, and ensuring they are getting full benefit from social programmes. For two years, the families get a small extra payment, provided they fulfil targets, such as taking their children to the clinic or seeking job training. It seems to work. “Little by little, I'm moving forward,” Olga Durán, a single mother living in a wooden shack, told the minister when she visited Peñalolen, a suburb which sprawls along the Andean slopes to the east of Santiago. Ms Durán has done a baking course, won a grant to set up a small business, and hopes to qualify for a government housing scheme.

There are many factors behind Chile's success. They include its history of solid institutions, its compact geography and an ethnically homogenous people. But some features of the “Chilean model” have broader application. One is an important degree of political consensus. Another is a strong respect for the differing roles of market and state. You need “growth plus social policies,” says Mr Lagos. “When people don't see the fruits of growth that leads to populism.” Chile has achieved much. The test of its aspiration to become a developed country will come when the price of copper returns to earth.

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Church and state in Argentina

War over a bishop

Mar 31st 2005 | BUENOS AIRES
From The Economist print edition

The president meets his match

AFP

Kirchner fires a troublesome priest

NÉSTOR KIRCHNER, Argentina's president, is not a man to back down in a fight, as the country's bondholders and a string of foreign companies know all too well. But he may find more political profit in challenging representatives of international capitalism than in taking on the Catholic Church. As a war of words between the government and the bishops has escalated in recent weeks, Mr Kirchner has become uncharacteristically cautious.

It began in February when the health minister, Ginés González, remarked that decriminalising abortion might save the lives of mothers in medical danger. The following day, Antonio Baseotto, the bishop attached to the army, unleashed a broadside against Mr González in a public letter. This included a suggestion that he be "thrown into the sea with a millstone around his neck"—a reference to a biblical passage which urges this punishment on those who "offend against the little ones".

Most Argentines are at least cultural Catholics and do not approve of abortion. But as the media were quick to point out, Mr Baseotto's unfortunate quote recalled the "flights of death" during the 1976-83 military dictatorship, when suspected dissidents were thrown from aeroplanes into the sea. He was accused of wishing this fate for Mr González. Mr Kirchner promptly asked the Vatican to sack Bishop Baseotto.

Church officials replied that they had no grounds on which to remove the bishop since he had not violated any rules. Rebuffed by Rome, Mr Kirchner stripped Bishop Baseotto of the state salary he received as chaplain to the army and thus, in theory, his right to enter military installations. The Vatican retorted that it would interpret anything which prevented Mr Baseotto from fulfilling his church duties as an attack on freedom of religion.

That left Mr Kirchner in a corner. Reinstating Mr Baseotto would represent a loss of face—especially for a president who has lost no opportunity to champion the victims of the dictatorship. But Mr Kirchner had little to gain by raising the stakes, especially at Easter and with sympathy for the Church aroused by the pope's Calvary.

The president's response was to go on holiday for a week. But the story did not go away. This week, Eduardo Duhalde, a former president and rival of Mr Kirchner's in the ruling Peronist party, stepped into the affair. He suggested that Guillermo Oliveri, the deputy minister in charge of religious

matters, give the Vatican a written guarantee of the bishop's freedom to perform his church duties. Mr Oliveri has refused to do that. Instead, he has proposed altering a 1957 treaty with the Vatican to eliminate the job of military bishop.

Almost two years after taking office, Mr Kirchner remains very popular, thanks mainly to the economy's strong recovery after its 2001 collapse. But Argentines may recall that in the 1950s a quarrel with the Church contributed to the downfall of Juan Perón, Mr Kirchner's political idol. Getting rid of Bishop Baseotto's job is one thing. A wider war with the Church would be an altogether costlier matter.

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Venezuela's education reforms

Repeat class

Mar 31st 2005 | CARACAS
From The Economist print edition

Arguing over schooling for all

BACK in 2001, the embryonic opposition to Venezuela's leftist president, Hugo Chávez, had a slogan that brought hundreds on to the streets in protest at a plan to reform education. “Don't mess around with our kids,” the placards read. The opposition's fear was that the reform would lead to the indoctrination of schoolchildren by political commissars thinly disguised as teachers.

As Mr Chávez went on to confront other groups—the Church, trade unions, the media and private business—educational reform dropped from view. Four years, a failed coup, a two-month national strike and an unsuccessful recall referendum later, the opposition has imploded. Mr Chávez is pressing ahead with his “revolution” on all fronts, education included. So some aspiring rebuilders of opposition are testing a new slogan: “Don't mess around with our kids.”

This time, criticisms focus on three things: an alleged threat to university autonomy; new “political” criteria for teachers' appointments and—as in 2001—the government's purported hostility to private education. According to Samuel Moncada, the minister for higher education, they are all unfounded. He says that the “fascist, coup-plotting opposition” is engaged in a “campaign of media manipulation” against the government.

One bone of contention is Decree 3444, which changes some of the ministry's regulations. The opposition says it undermines the constitutional guarantee of university autonomy, giving the government control over budgets and planning. The minister argues it mainly codifies existing practice. But his view of autonomy, he admits, is different from the “elitist, oligarchic” principle preached by “middle-class, white, media-savvy civil-society groups backed by the United States”.

The government's policy is to guarantee education up to university level to anyone who wants it. To this end, it has created a parallel educational system with hundreds of thousands of beneficiaries. These “missions”, created with help from Cuba's communist government, must now somehow be fused with a reluctant traditional system. Few would argue that reform is not needed. The fear of opponents is that pedagogy will lose out to ideologically slanted training.

In the schools, the government stopped giving new teachers job tenure in 2001. Instead, tens of thousands have been given interim appointments. Critics claim that these are based on political, not professional, criteria. The education ministry is considering whether to allow these interim teachers to obtain tenure, bypassing the normal appointments criteria. Government supporters argue as they did in the case of the state oil company, where 20,000 were sacked in 2003, that “meritocracy” favours vested interests.

The government roundly denies it is attempting to eliminate private education, much less impose a one-party ideology. It rejects fears of Cubanisation. Officials say that they take advice from other

countries, too—though they point out that Cuba's system of education for all has been widely praised. This week, Mr Moncada and the schools minister defended their plans before the National Assembly. Whatever the validity of the opposition's claims, the government shows little sign of heeding them. Mr Chávez recently said that Venezuela needs “rapid, revolutionary results”. A new version of that old educational creed, the three Rs, perhaps.

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Iraq

Time to stop the squabbling

Mar 31st 2005 | BAGHDAD
From The Economist print edition

Why a new government for Iraq still hasn't been formed—and why prospects for peace and progress are gradually becoming less bleak

IT WAS a farcical scene. For only the second time since a widely acclaimed general election two months ago, Iraq's parliament met again on March 29th—and achieved nothing. This time, MPs did not even make florid appeals for national unity, as they did at the inaugural session two weeks ago. Instead, one after another, they got up to denounce the main parties for failing to produce a coalition government, and demanded to know what was going on behind closed doors. After about 20 minutes of angry discord, parliament's acting speaker ejected the watching media from the chamber; Iraq's state television screens, which had been beaming the proceedings, suddenly cut to a music concert. Across Baghdad, indignant Iraqis asked each other if this was what they had defied the insurgents on election day to achieve.

But things may not be as bad as they look. The two main groups, the Shia-led United Iraqi Alliance and a coalition embracing the two main Kurdish parties, still say that they have resolved, at least temporarily, the biggest differences between them, deferring the thorniest one, over the final status of the disputed city of Kirkuk, until later. The leading alliances are still bickering between each other and among themselves, but the biggest (and apparently final) stumbling block to forming a government is over how to bring Sunni Arabs into it. The main problem is that, because most Sunni Arabs refused or were too afraid to vote in January's election, no one knows who really represents them.

The Shias and Kurds long ago agreed that parliament's speaker and one of two vice-presidents should, among other posts, be Sunni Arabs. The latest hiccup has been caused by the outgoing

interim president, Ghazi al-Yawar, a well-connected Sunni Arab who had been tapped for the speaker's job but who suddenly declared that he wanted to be a vice-president instead. The Shias put up their own Sunni candidate, other Sunnis in the parliament bristled at having a representative forced on them, and the fragile consensus collapsed. MPs now say that the Sunnis have until April 3rd to come up with a candidate—or the rest of the Shia- and Kurdish-dominated body will decide for them.

Compared to the Shias or Kurds, Iraq's Sunni Arabs are badly divided. A number of Sunni-dominated groups ran in the recent general election but barely a score of Sunni Arabs, scattered across a number of different lists, won seats in the 275-member parliament. So no one knows who would have done well had the vast majority of Sunnis not stayed away from the poll. Moreover, many local Sunni leaders say that their constituents will accept no one who fought against Saddam Hussein's regime from exile or who participated in the governments which followed his demise, which rules out nearly all of those Sunni Arabs who were elected in January.

Still, Sunni leaders are belatedly trying to get their act together. Sharif Ali bin al-Hussein (a monarchist), Adnan Pachachi (a liberal), Hajem al-Hassani (an Islamist) and a clutch of others have held a series of conferences with the aim of producing a coherent Sunni agenda. Sharif Ali, in particular, has won the blessing of at least some members of the Muslim Scholars' Board, an influential but strongly anti-American Sunni clerics' body that called for an election boycott. Now Sunni leaders are insisting that the new government should meet a string of demands, running from the rehabilitation of purged Baathists to the release of political prisoners and a withdrawal deadline for American troops, as the price of co-operation. The Sunnis also demand not just the speaker's post and a vice-presidency, but also a security ministry, either defence or interior.

If a Sunni Arab had one of those key jobs, he might be able to persuade at least some of the insurgents to put down their arms. As it is, they appear—for the first time since the insurgency got going in earnest 18 months ago—to be on the defensive. Attacks in February dropped to 40-50 a day, their lowest level since the Americans first assaulted the rebel stronghold of Fallujah a year ago. While the rate has gone up a bit in the last few weeks, the rebels are no longer massing troops to overrun police stations or take over Iraqi towns wholesale.

In contrast, Iraqi government troops are fighting more aggressively, and the insurgents' mystique is fading, thanks in part to popular television programmes such as “Terror in the Hands of Justice”, which shows broken rebel captives confessing to everything from contract killings to homosexual orgies. Iraqi police say this has led to a surge in the number of tips from citizens, who now take a more scornful and less fearful view of the guerrillas.

Many Sunni politicians who have embraced the new order (even though they have yet to be slotted into government) say that more insurgents now want to lay down their arms. That still excludes dedicated Islamists linked to Abu Musab al-Zarqawi, the Jordanian who claims to be Osama bin Laden's main man in Iraq, and criminal and Baathist networks. But many Sunni Arab regular soldiers from Mr Hussein's era who took up arms in reaction to American raids and weapons searches in their homes, and to the apparently haphazard arrest of many of their relatives, may be thinking of giving up.

The success of the election has convinced them that they will not topple the new post-invasion political order; they would now rather make their peace with it. What is stopping them, the Sunni politicians say, is fear for their and their families' safety. If they come out into the open and hand in their arsenals, they may be arrested by American troops or targeted for assassination by Shia militias. What might persuade them to give up is a trusted Sunni military veteran sitting at the negotiating table as minister of defence or interior.

Iraq's incoming rulers, however, seem loth to let that happen. Perhaps the most influential Shia party in the winning alliance, the Supreme Council for Islamic Revolution in Iraq, says there are already too many Baathist sympathisers in the new armed forces and intelligence service, and wants to control the security ministries to purge them even more thoroughly. But if the Sunni Arabs and Shias cannot overcome these differences, the post-election window of opportunity for a negotiated settlement with at least some of the insurgents may close.

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Lebanon and Syria

Who will blink first?

Mar 31st 2005 | BEIRUT
From The Economist print edition

Syria's regime and its Lebanese proxies are rattled—but they won't give up yet

Reuters

We're out of there—but still loyal to Assad

WHAT a bind Lebanon's security services are in. This week's UN report by an Irish policeman, Peter Fitzgerald, accused them of planting, moving and discarding evidence that was crucial to the investigation into who planted the huge bomb that killed Lebanon's former prime minister, Rafik Hariri, in February. Worse, they are losing their Syrian masters, and no longer know to whom they should report. “Where are our policemen?” asked a former interior minister, Elias al-Mur, fearing that the 15-year-old system was collapsing in chaos.

Heads of Lebanon's security chiefs, accused by Mr Fitzgerald of “gross negligence”, are already rolling. The military-intelligence chief, General Raymond Azar, was the first to take a month's leave; the head of internal security, General Ali al-Haj, who began his spy career as Mr Hariri's driver, may well follow. In their wake, hundreds of Syria's remaining 10,000 troops in the country are rushing home. And Lebanon's pro-Syrian president, Emile Lahoud, has given in to opposition demands for a more extensive international inquiry into Mr Hariri's murder.

Syria's president, Bashar Assad, may be a lot less clever than his father, mock Lebanon's chattering classes. But unlike Saddam Hussein, he can read the lessons of history. Unusually, the UN's 16-page report virtually accused Mr Assad of the murder, citing reports that he had threatened Mr Hariri with “physical harm” last summer, should he refuse to obey Syrian orders to extend the mandate of their Lebanese client, Mr Lahoud. The UN report added that, in his last meeting with Mr Hariri, Mr Assad had bluntly told him that Mr Lahoud “should be viewed as his personal representative in Lebanon”.

Lest Mr Assad misunderstood the message in the report, the UN's secretary-general, Kofi Annan, met a chastened Syrian president last week in Algiers, to ram it home. “Given that the investigators lacked conclusive evidence,” says a Lebanese government official, “it's hard to see how it could have been more damning.”

But the Syrians have yet to give up their satellite: it is dangerous for a dictator to look weak. In the past fortnight, three big bombs have rocked Christian quarters of Greater Beirut, which even Lebanese security officers now blame on Syrian hands. While many Syrian workers have abandoned their Beirut flats, Syria's intelligence chief in Lebanon, Rostom Ghazali, hangs on in his headquarters in Anjar, a village in the Bekaa valley, in the country's south-east. And despite pressure from within the country that he should resign, Syria's most devoted Lebanese servant, the intelligence chief, Jamil al-Sayyid, refuses to bow out. “He still thinks he owns the country,” says a frustrated presidential adviser.

Even if Syria's old *mukhabarat* (intelligence service) slinks away, most Lebanese expect new ones back in a different guise. Syria's allies, including Hizbullah, Lebanon's Shia party-cum-militia, which still has some 20,000-plus men under arms, will still work as Syria's (and also Iran's) eyes and ears. In addition, the many Lebanese who are loyal to Syria because they owe their jobs to it, may be less ready to ditch their backer.

The heavily pro-Syrian parliament, in which only 35 or so of 128 MPs are in outright opposition, is flinching from the prospect of a general election, due in May. So one proposal is to lower the voting age from 21 to 19, to enfranchise more Shias, who tend to be more pro-Syrian and who have been breeding faster than their other compatriots. But a lot of pro-Syrian MPs would like simply to postpone the poll by filibustering until April 15th: thereafter, they say, it will be too late to hold an election in the current parliamentary term.

Omar Karami, the nominated prime minister who is proving unable to form a coalition government, has again promised to step down, but, to waste more time, he says he will make a formal announcement only after meeting political allies at the end of the week. Then comes the jockeying for a successor. “Elections now would be suicidal for the pro-Syrians,” says a presidential adviser. “The opposition would sweep 70%.” But should the government hold out for another six months, the pro-Syrians' chances might improve. The longer the delay, the greater the likelihood that the fragile alliance of Sunnis, Druze and Maronite Christians would crumble.

If Lebanon's pro-Syrian politicians are refusing to buckle without a fight, so too are their ruling friends in Damascus. Many Syrians, affronted by what they see as Lebanon's anti-Syrian invective and apparent ingratitude for the 15,000 Syrian troops who have died trying to rescue their squabbling neighbour from civil war, have rallied to the government's cause. Besides, Syria's opposition is much feebler than Lebanon's. Pro-American exiles have no local constituency, intellectuals in Damascus have little nerve, and—to the delight of many in the Syrian establishment—Syria's Sunni *jihadis*, who have long been hostile to the secular Assad dynasty, have been killing themselves in Iraq.

In addition, Mr Assad has been strengthening his own hand at the expense of some of his father's old friends. The armed forces' former chief of staff, Hikmet Shihabi, was sent packing to Los Angeles; the longstanding vice-president, Abdul Halim Khaddam, has lost his portfolio for overseeing Lebanon. A third member of this political-cum-business trio, Mr Hariri, whose Sunni leadership stretched far into Syria, is now conveniently dead.

In its place, Mr Assad has surrounded himself with family friends from his minority Alawite sect, including his brother-in-law, Asaf Shawkat, who heads military intelligence; his brother, Maher Assad, the unofficial head of the presidential guard; and Bahjat Suleiman, who runs internal intelligence, a professor who was among the first to boost Mr Assad's reputation when his father's old guard considered him weak. Of his father's advisers, only Ghazi Kenan, Syria's ruthless viceroy in Lebanon for two decades, has been brought back from the lesser job of overseeing Syria's Kurds, to take over the interior minister and muzzle the opposition.

But perhaps Mr Assad's best—and most unlikely—hope for survival, at any rate for a bit longer, is that the American administration will lessen its pressure. Still bogged down badly in Iraq, George Bush may be wary of encouraging regime change across the border, in Damascus, until and unless there is a clear plan for an alternative. So far, there is no sign of one.

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Sudan

Mild rebukes for Darfur's killers

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From The Economist print edition

The latest UN resolutions are unlikely to end the carnage

IN UM SEIFA, a dusty village in Sudan's western region of Darfur, a crowd of white-robed children stood outside their newly reopened school (see picture above). “The government never gave us education, development, health [services or] equality,” said the headmaster, Muhammad Harun Musa. So the people of Um Seifa built their own school. A week after your correspondent visited it, it was burned to the ground, and eight children murdered.

That was in December. According to villagers who returned at night to bury the dead, some 32 people were killed in a three-day attack by government-sponsored militiamen, known locally as *janjaweed* (bandits). Such stories are almost too common to raise eyebrows in Darfur. For a year-and-a-half now, Sudan's Arab-dominated government has been ethnically cleansing this vast western region, by arming, encouraging and giving air support to mostly Arab militias who kill, rape and rob black Africans.

The government admits to arming militias but insists that this is only in order to crush a rebellion that began in February 2003. And indeed, many of the villages it razes do support the rebels. The headmaster in Um Seifa, for example, is also an active member of the Sudan Liberation Army (SLA), the larger of the two Darfuri rebel groups. By day he taught; by night he used to man a checkpoint.

Since the rebellion began as a protest against decades of malign neglect, it is perhaps unsurprising that some rebel leaders are trying to deliver public services their Arab rulers never troubled to. But the government, which in recent years has been forced by outside pressure to make concessions to a different group of rebels, from the south of the country, to end a separate and much older civil war, is in no mood to tolerate further threats to its authority.

Hence its cruelly disproportionate response to the uprising in Darfur. With its *janjaweed* proxies, it has driven some 2m Darfuris from their homes, killed tens of thousands, and let many more die of hunger or disease because they have been unable to sow their fields for fear of being murdered.

A British parliamentary report this week put the total death toll at 300,000, a figure the Sudanese government furiously disputes. Jan Egeland, the UN's emergency relief co-ordinator, has put the number of those who had died from hunger and disease over the past 18 months at 180,000, not including those killed in the violence.

Last week, the UN Security Council authorised the dispatch of 10,000 blue helmets to keep the peace in southern Sudan. Some of these may be allowed to help out in Darfur, where the need is much greater, but it is not clear how or how many.

On March 29th, the Security Council voted to strengthen its porous arms embargo by ordering the Sudanese government to inform the UN before sending any more weapons to Darfur. The council also decided to impose an asset freeze and a travel ban on those who impede the peace process in Darfur, though it said it would take another month to produce a list of names.

Their day in court may come

A vote on how and whether to put the worst killers in the dock was expected this week. Most Security Council members think this should be a job for the International Criminal Court (ICC). The United States, which fears the court will be used for politically-motivated prosecutions of Americans, would prefer an ad-hoc African tribunal. The Sudanese government, which is anxious that none of its senior members should be charged with anything, announced pre-emptively that it had arrested 24 people suspected of war crimes in Darfur and would try them in its own courts.

Few observers imagine that peace can be imposed on Darfur without a much larger and more robust foreign military intervention. Currently, there are only 2,000 African Union (AU) peacekeepers in Darfur. They are supposed to monitor a rarely-heeded ceasefire in an area the size of France: an impossible task for so small a force, as the recent attack on Um Seifa and other villages near Nyala, the capital of South Darfur, illustrates. AU peacekeepers watched as the Sudanese army left Nyala at sunset, cheered by some locals, with the stated aim of clearing the road to Khartoum, the national capital, of bandits.

The AU force followed the army and its *janjaweed* allies closely. “We met in the field and had minute-to-minute negotiations,” says Henry Mejabi, the AU sector commander. But although the AU's mandate speaks of “protect[ing] civilians under imminent threat” he did not try to stop the killing. The AU's mission is primarily to observe, and in any case, he did not have enough men to face down the *janjaweed*.

Instead, he found himself clearing up afterwards. When the plundering was over, the AU persuaded the Sudanese army to vacate the area. The peacekeepers then set up two field bases, which encouraged some 10,000 villagers to climb out of the dry riverbeds where they had been hiding and return to what was left of their villages. They now sleep “five centimetres from the razor wire [around the AU camps]”, says one aid worker.

The situation in Darfur is as fluid as it is confusing. Some observers think the number of attacks on civilians has declined in the past couple of months; others disagree. Whatever the truth, few of the displaced dare go home and plant their crops. So the need for food aid is likely to increase—the UN predicts that 3m-4m will need feeding by the middle of next year unless the fighting stops. As more aid arrives, however, more gunmen will seek to make a living by stealing it.

Although the government is the chief culprit, not all atrocities in Darfur are carried out at its behest. The *janjaweed* is an ill-defined entity—what one AU commander calls “a loose something”—consisting not only of government-armed militias but also of common criminals.

Young, ill-disciplined rebels also sometimes kill civilians and harass aid workers. More than once, rebel leaders have had to make apologetic satellite telephone calls to aid officials from their hotel rooms in Abuja, the Nigerian capital, where they attend fruitless peace talks. The UN, meanwhile, keeps telling the Sudanese government to disarm the militias it armed in the first place. But without a credible threat of serious consequences if it does not, that seems unlikely.

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Nigeria

Stiff penalties for footballers

Mar 31st 2005 | LAGOS
From The Economist print edition

The mysteries of Nigerian justice

LAST week, more than 50 Nigerians, some of them wearing football shirts and shorts, appeared before a federal high court charged with treason. Their alleged crime was to have represented a banned secessionist group from south-eastern Nigeria in a football tournament. They have already spent more than six months in jail. Prosecutors are asking for the death sentence.

One can understand why the Nigerian government takes secessionist threats seriously. The last time the south-east tried to break away, during the Biafran war of 1967-70, a million people died. But it is not clear that the footballers in the dock have ever threatened to hurt anyone.

Contrast that with Mujahid Dokubo-Asari, a warlord from the oil-rich Niger delta who threatened last year to wage “all-out war” on the Nigerian state if his ethnic kin were not given a bigger share of the oil money. After cutting a deal with the president, Olusegun Obasanjo, he now lives in stunning opulence.

Mr Obasanjo's critics charge that his anti-corruption campaign is being waged with similar capriciousness. On March 22nd Mr Obasanjo announced on television that he had sacked his education minister, Fabian Osuji, after receiving intelligence reports “confirming” that he had bribed lawmakers to inflate his ministry's budget. Mr Osuji is the second minister to be sacked over sleaze since 2003 (the first was a labour minister). Reformers within the government are claiming it as a victory in the long struggle against corruption. Mr Obasanjo mentioned that other ministries are also being investigated.

But Mr Osuji denies the allegations and says he was targeted because of his connections to the vice-president, Atiku Abubakar, who the local press says is Mr Obasanjo's principal political rival. Mr Osuji's supporters contrasted his treatment with that of Tafa Balogun, a former chief of police who resigned in January amid allegations of embezzlement. Mr Osuji was arrested almost immediately after being sacked. Mr Balogun, a close ally of Mr Obasanjo, was not arrested until this week. Opposition politicians say he was only detained to avoid the appearance of partiality, and that he will probably be acquitted.

Squabbling between the president and the national assembly, meanwhile, has left Nigeria without a budget, which was supposed to have been passed in December. Lawmakers added $865m to Mr Obasanjo's budget bill. Mr Obasanjo refused to sign it, for fear of stoking inflation and irking Nigeria's foreign creditors, whom he is trying to persuade to write off some of the country's debts.

The stalemate over the budget and other essential bills may not be easy to break. Lawmakers are in an obstructive mood, not least because they are furious that Mr Obasanjo has publicly accused them of “wallow[ing] in corruption”.

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Kirgizstan

Another autocrat falls

Mar 31st 2005 | BISHKEK
From The Economist print edition

The strange tale of the Kirgiz uprising, and what it might mean for Central Asia and the rest of the former Soviet Union

IT COULDN'T happen in Georgia, because Edward Shevardnadze was too wily a president to be ousted. It couldn't happen in Ukraine because, unlike in Georgia, almost half the country didn't want it to. And it couldn't happen in Kirgizstan because the protests against the corrupt post-Soviet regime had no leader and sprang up far from the capital, Bishkek. Yet despite all the predictions that it couldn't and wouldn't, revolution came to all three countries: Georgia in 2003, Ukraine last year, and Kirgizstan last week. Or did it? From a distance, the Kirgiz events look genuinely revolutionary; up close, they are more ambiguous.

Last week, motivated by two rounds of flawed parliamentary elections, and fears that Askar Akaev, in power since 1990, might remain so indefinitely or contrive a dynastic succession, protesters seized several towns in southern Kirgizstan. But a demonstration in Bishkek on March 23rd was comfortably contained. Then on March 24th, Mr Akaev was abruptly toppled—in what was as much a riot as a revolution ("uprising" is now the term of choice in Bishkek, though "coup" might also be thought to fit).

Mr Akaev's failure to negotiate helped to undo him; so did his breaking of a pledge not to resort to violence. All the protests' leaders say they intended only to pitch some yurts in Bishkek's main

square, in emulation of the encampment in Kiev last year, and sit it out until their demands were met. But events in Ukraine seem to have persuaded Mr Akaev that tolerance was dangerous. The police behaved brutally enough to enrage the protesters. But the police were too few and inept to resist the backlash, during which the president's offices were occupied.

Pigs turn into men

Kirgizstan, along with Tajikistan, is the poorest of the Central Asian republics. It is also one of the most corrupt countries in the world. The looters who rampaged through Bishkek for two nights after the uprising targeted businesses they thought belonged to the Akaev family, widely believed to have grabbed most of the going concerns. But some of it was just plain looting, and opportunistic private score-settling. Desperate shopkeepers put up signs saying “We are with the people.”

The president himself reportedly vanished just before his office was ransacked, a move that in Central Asia's macho political culture counts against him as much as his other offences. Having been spirited away to Russia, he reappeared to say that he would officially step down on the right terms (that is, immunity and the retention of personal assets), but also to denounce the illegitimacy of the revolt.

Mr Akaev has a point. The violence was not the only difference from events in Georgia and Ukraine (helped by a fortuitous snowfall, Bishkek was calm again by March 27th). In contrast to the masses who ejected Mr Shevardnadze and helped to make Victor Yushchenko Ukraine's new president, only a few thousand of Kirgizstan's 5m people took to the streets. The opposition figures who have jostled themselves into power, and are now manoeuvring for the presidential elections planned for June 26th, have a much weaker moral mandate than either Mr Yushchenko or Mikhail Saakashvili, Georgia's post-revolution leader.

They quickly risked squandering what little legitimacy they did have. The revolt left Kirgizstan with two parliaments: the old one elected in 2000, and the new, supposedly rigged one. Initially, both sat in competition, in the same building. Along with the supreme court, Kurmanbek Bakiev, once Mr Akaev's prime minister, favoured the old parliament, which had nominated him as acting prime minister and president. Felix Kulov, another former Akaev aide who was imprisoned in 2001 on what he says were politically motivated charges, and was freed from prison (looking remarkably well) last week, endorsed the new one. Mr Kulov, who briefly took charge of security before resigning on March 30th, threatened to arrest old parliamentarians who demurred.

Mr Kulov got his way; Mr Bakiev and the new parliament duly recognised each other. The new line is that the dodgiest results will be reviewed—and anyway, wasn't the 2000 vote at least as bad? Understandably miffed, on March 28th some protesters tried to blockade the parliament; another bunch turned up the next day to defend it.

As Muratbek Imanaliev, a former foreign minister, says, the big question now is whether this improvised rebellion can now assume a legitimate form. That, and the stability of a country that is an artificial Soviet creation, will largely depend on whomever does become president. The robust Mr Kulov and more bureaucratic Mr Bakiev are the favourites. But Mr Kulov concedes that, hailing as he does from northern Kirgizstan (like Mr Akaev), he might further estrange the south, which is separated physically by a mountain range and culturally by its large Uzbek minority and more devout adherence to Islam.

Great games and dominoes

Hizb-ut-Tahrir, an avowedly peaceable but fundamentalist Islamist movement most active in the south, seems to have had little or no involvement in last week's events. But it could exploit any further unrest. Mr Kulov says the Akaev regime neglected the Islamist problem, and the trafficking of Afghan drugs. Those twin threats help to explain why the shenanigans in a poor, landlocked, mountainous country matter to three big powers: China, which worries about its own Muslim Uighur minority and access to Central Asian energy supplies, plus America and Russia.

After September 11th, the Americans established a base near Bishkek to support their operations in Afghanistan. Russia set up its own base in response. According to some in Moscow, Kirgizstan is another blow to Russia in the competition for influence in the former Soviet Union.

But another interpretation is that Vladimir Putin, Russia's president, has learned from his ill-advised interference in Ukraine. While hosting Mr Akaev, he also says he will do business with his successors. Some shifty Russian parliamentarians have since turned up in Bishkek, and the Kremlin may yet meddle. More likely, it will try to make it look as if it is exerting influence, even if it isn't.

Does this signify a new, humbler Russian policy towards its “near abroad”? Perhaps, but Kirgizstan may be an unusual case. There was no anti-Russian animus in the protests or, say Bishkek's ethnic Russians, in the looting (though Turkish and Chinese businesses were damaged). Everyone is talking up the importance of good relations with Moscow: Kirgiz politicians know their country is too poor to make enemies. Nor was there much western backing for the opposition.

Rogues' gallery

Despots of Central Asia

Country	Name of president	In power since	Despotism rating
Kazakhstan	Nursultan Nazarbaev	Apr 90	
Kirgizstan	Askar Akaev*	Oct 90	
Tajikistan	Imomali Rakhmanov	Nov 92	
Turkmenistan	Saparmurat Niyazov	Oct 90	
Uzbekistan	Islam Karimov	Mar 90	

Source: *The Economist* *Until March 24th

Mr Putin, and the Americans, may be less sanguine if the revolutionary bug spreads further into Central Asia. And it does seem to be infectious. Roza Otunbaeva, a former foreign minister now back in her old job, says that the upheavals in Georgia and Ukraine were “an inspiration—and our revolution may be an inspiration to others.” It seems already to have encouraged the Mongolian opposition.

Kirgizstan has helped clarify the chemistry of post-Soviet revolution. Consistent ingredients have included a disputed election; weak or divided security services; and opposition leaders who were once part of the ruling elite. Mr Saakashvili was briefly a minister under his predecessor; Mr Yushchenko, like Mr Bakiev, is a former prime minister. Each deposed regime has had a relatively liberal phase, in which its future critics served, enabling them to raise their profiles. In all three, corruption has been a defining grievance: “corruption is the key issue,” says Mr Saakashvili.

Allowing for the other lesson—that revolutions can be unexpected, and regimes that seemed strong can turn out to be brittle—who might be next? The most obvious candidate is Kazakhstan, whose president, Nursultan Nazarbaev, also in power since 1990, this week closed the border with Kirgizstan. The Kazakhstan opposition has just agreed on a single candidate (a former parliamentary speaker) for the presidential election due this year or next. But partly because of Mr Nazarbaev's economic policies, and partly because of his country's oil, there is more of the pie to go around, despite the cronyism. Many in the middle class have little reason to seek change; western oil companies and governments have even less.

Elsewhere, Tajikistan is still traumatised by the civil war of the 1990s. Upheaval in Turkmenistan seems unlikely before the death of Saparmurat Niyazov, the despotic president-for-life. Uzbekistan's 26m people—Central Asia's largest population—and especially its repressed and sometimes violent Islamists, have plenty of reason to resent President Islam Karimov. Further away, a parliamentary election is due later this year in Azerbaijan, where Ilham Aliev succeeded his tough father in 2003. A plucky but small group of pro-democracy activists this week again faced the truncheons of Belarus's policemen. In Russia itself, an authoritarian putsch is, alas, more likely than a democratic one.

What will the rulers of these countries infer from Bishkek? The pity is that Mr Akaev, the only post-Soviet ruler in the region not to have been a lifelong communist apparatchik, was once known as “the Thomas Jefferson of Central Asia”. “It was a romantic time,” says Mr Kulov of the early days of Mr Akaev's rule, when he introduced liberal economic policies and permitted dissent. But he stayed too long, and, as is the fate of such rulers, lost touch (“his ears heard only honey,” says Ms Otunbaeva). His regime became corrupt and repressive, most infamously when six demonstrators were shot in 2002.

Unfortunately, his counterparts may deem Mr Akaev's mistake to have been excessive leniency, not severity—perhaps even including, despite the encouraging noises, Kirgizstan's new rulers. As Mr Saakashvili rightly says, true revolution is not “just about throwing one ruler out and throwing someone else in his place.”

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Indonesia

Aftershocked

Mar 31st 2005 | SIBOLGA
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Another earthquake, but no wave, strikes Sumatra

The earthquake that rocked the west coast of Sumatra on the night of March 28th was not entirely unexpected. Hundreds, if not thousands, of aftershocks have shaken the area since the massive tremor last December 26th that triggered the devastating Indian Ocean *tsunami*. This one, which registered 8.7 on the Richter scale (the original one was 9.3), was simply the biggest by far. It was felt along the length of Sumatra but, unlike the one on December 26th, did not trigger a great wave and so devastated only a relatively small area: the islands of Nias and Simeulue and neighbouring islets about 130km (80 miles) off the coast.

There, some 70% of the buildings, already weakened by three months of quakes, collapsed. The ones that survived were wooden houses, since they were less stiff than the concrete ones and able to sway with the tremor. The death toll is still unclear, as several remote areas have yet to be reached. But, as the earthquake struck at 11pm, most people were asleep in bed. Many failed to escape. The Indonesian government estimates that some 400-500 people have died. Thousands more have been injured—many by the sheer force of the earthquake. Doctors said scores of people sustained broken bones simply by being thrown to the ground. The main town on Nias, Gunung Sitoli, seems to have been largely destroyed.

Tens of thousands are now homeless, forced to camp out in the open in driving rain and biting winds. But the big difference between this and the December tragedy has been the international reaction. Within minutes, earthquake monitoring centres around the world had raised the alarm—and the nations bordering the Indian Ocean took no chances. After the Indonesian government ordered a mass evacuation, people fled coastal settlements and resorts from Malaysia to India, many of which had felt the quake several hours before it became clear that this time there was no *tsunami* approaching. Memories of the catastrophe in December, which killed about 300,000 people, two-thirds of them in Indonesia but the rest as far afield as Kenya, are all too fresh.

In Sumatra the relief response was equally swift, perhaps because there had been so much criticism of the slow response last year. By sunrise on March 29th, staff from the many United Nations outfits and international aid agencies based in northern Sumatra for the *tsunami* relief operation had been in contact with local authorities and had dispatched search and medical teams to the stricken areas.

Aid began flowing by the end of the day and within 48 hours neighbouring countries, such as Singapore and Australia, had begun redeploying many of the military personnel they had just withdrawn from the region. Governments further away gave instant pledges of assistance. The

troops are unlikely to need to stay long because the civilian aid agencies are already in place and have their operations well up to speed. But the quake serves as a brutal reminder that what the UN and other agencies are now having to plan for is the next “big one”. No one believes Monday's quake will be the last along what has suddenly become the world's most active fault line; it seems increasingly likely that it is simply a matter of where and when.

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South Asia's arms race

Delayed take-off

Mar 31st 2005 | DELHI
From The Economist print edition

A lollipop for Pakistan; two for India

BETWEEN the idea and the reality, said T.S. Eliot, falls the shadow. In the case of America's sale of F-16 fighter aircraft to Pakistan, announced on March 25th, it fell for 15 years. Pakistan had even paid for them in advance. The sale foundered in 1990, just before the planes were to be delivered, when American sanctions were imposed because of Pakistan's nuclear programme. The tortured history of the deal has given it huge symbolic significance, not just for sulking Pakistani generals, but for touchy Indian politicians.

The original F-16s were otherwise deployed, and Pakistan compensated. Now, it is to buy 24. This is the latest reward for its importance as an American ally—in the war in Afghanistan, in the hunt for al-Qaeda and Taliban remnants since then, and in the rolling-up of a network of nuclear proliferation, with its centre in Pakistan itself. In India, B. Raman, director of the Institute for Topical Studies, a think-tank in Chennai, argues that this latest “lollipop” is a prize for co-operation on another front: the effort to stop Iran getting nuclear weapons. Mr Raman fears this may lead to Pakistan's withdrawal from a planned pipeline project to bring natural gas from Iran across its territory to India.

India's prime minister, Manmohan Singh, told George Bush of his “great disappointment” about the F-16 sale. Indian officials argue that it might jeopardise the tenuous peace process under way between India and Pakistan. The snub to Indian concerns came little more than a week after a visit to Delhi by America's secretary of state, Condoleezza Rice. American officials had presented her mission as part of a new strategic vision of the bilateral relationship: “to help India become a major world power in the 21st century”.

Arming Pakistan seems an odd way to go about this. But America has also now let it be known that it is ready for a transformation in its defence relations with India. It is to allow Lockheed Martin, the maker of F-16s, to compete for an order of 126 “multi-role” combat aircraft that India wants to buy. India could even buy the more sophisticated F-18. America is also prepared to discuss “co-production” of the aircraft in India, and what officials call “even more fundamental issues of defence transformation”, such as command-and-control and early-warning systems, and missile defence. For American defence contractors, eyeing one of the world's largest markets, this is good news.

America is also ready to talk about India's soaring energy needs, and in particular to consider allowing India to buy nuclear reactors, though this could be awkward as India is not a signatory to the Non-Proliferation Treaty. Officials deny that the United States has taken a strategic decision to build up India as a counterweight to China. But between the idea of a prosperous, democratic and peaceful Asia, and the reality of American concerns, falls the shadow of Beijing.

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Taiwan

Own goal

Mar 31st 2005 | BEIJING AND TAIPEI
From The Economist print edition

Has China blundered?

AP

Taiwanese want to give it a chance

CHINA may already be regretting its decision to adopt an anti-secession law aimed at keeping Taiwan in check. For Taiwan's independence-minded president, Chen Shui-bian, it has been a political boost, enabling him to rally hundreds of thousands of people last weekend in one of the island's biggest ever demonstrations. And it has introduced Taiwan—hitherto mainly a problem between China and America—as a tricky new factor in China's relations with the European Union.

Privately, Chinese officials say the bill, which was adopted by China's rubber-stamp parliament on March 14th, arose from the perception last year that Mr Chen was likely to gain control of the legislature in polls last December, dislodging the Kuomintang (KMT) and its pro-unification allies. Mr Chen, the theory went, would then step up his efforts to assert Taiwan's independence.

Unexpectedly, the electorate disappointed Mr Chen. But the political momentum in China to adopt a bill threatening war against a secessionist Taiwan proved unstoppable, or so officials now say. They may have hoped that by keeping the law's wording in line with China's existing policy on Taiwan, repercussions abroad would be minimal and that Taiwan itself would sulkily brush it off.

China certainly did not intend to hand Mr Chen a political gift. The huge protest march in Taipei on March 26th, which Mr Chen attended, enabled him to demonstrate rare solidarity between supporters of formal independence and those who want to keep the status quo. Mr Chen's loss of support among the latter group had caused his party's difficulties in the recent polls. Pro-independence activists had been upset by Mr Chen's post-election moves to reach out to China.

And China probably did not anticipate the bill's impact in the European Union, where its passage is now being cited by some officials as grounds for delaying plans to lift a 16-year-old embargo on weapons sales to China. Shi Yinhong of Renmin University of China in Beijing says relations between China and the European Union, hitherto largely unfettered by the differences over security issues that mar ties between China and America, have suddenly become “much more complicated”.

But all is not lost. Mr Chen did not make any speech at the demonstration, clearly to avoid raising tensions further. And the KMT, calculating that the public would still prefer to avoid confrontation with China, has gone ahead with a goodwill trip to the mainland this week by the party's vice-chairman, Chiang Pin-kung. It is the first by an official KMT delegation to the mainland since 1949, when the party lost the civil war to the communists. Philip Yang of National Taiwan University in

Taipei says that after a few weeks, Mr Chen, mindful of the need to capture the political middle ground, is likely to resume efforts to establish air links with China. China, eager to show that the law is not that bad, may well be quite keen to talk.

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Australia

New best friends

Mar 31st 2005 | SYDNEY
From The Economist print edition

Unwelcome news for Australia's Americophiles

Get article background

THERE are few stauncher allies of America than Australia. John Howard, the prime minister, was one of the first leaders to commit troops to the war in Iraq, and recently dispatched another contingent. His conservative coalition government has forged a free-trade agreement with the United States. Mr Howard may be right when he boasts that Australia's relationship with America has never been closer. But he is on shakier ground when he says that the American alliance is "very central to the Australian psyche".

An opinion poll published on March 28th asked Australians to rank a list of 15 countries and regions by their "positive feelings". America came eleventh, at 58%, just behind Malaysia and Papua New Guinea. Only Indonesia, the Middle East, Iran and Iraq rated worse. The highest rating country (surprisingly, given their neighbourly rivalry) was New Zealand, which 94% of Australians felt positive about, followed by Britain, the EU and Japan.

The doubts about America did not stop there. Among ten potential threats from the outside world, 57% of Australians believed American foreign policies were as dangerous as Islamic fundamentalism. While 72% of Australians saw the American alliance as important for their country's security, more than two out of three thought Australia took too much notice of the United States in shaping its foreign policy. Asked if Australia should support America in any conflict with China over Taiwan, 72% said no.

The poll was conducted for the Lowy Institute, a foreign-policy think-tank in Sydney. Ironically, and perhaps uncomfortably, Mr Howard gave the institute's inaugural "Australia and the World" address three days later. Allan Gyngell, the institute's executive director, and the former foreign-affairs adviser to Paul Keating, Australia's previous prime minister, says he was "jolted" by the findings. He puts the antipathy towards America down to the unpopularity in Australia of George Bush, Australians' anti-authoritarian streak towards the world superpower, and a sense of drift over where Australia's future lies.

The latter probably explains the survey's other big surprise. More than two-thirds of Australians felt positively about China, and half thought a future free-trade agreement with it would be good for Australia (compared with only one-third who felt the same about the trade agreement with America). China's growing power was the least worrying world threat, well behind America's policies.

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Crowned at last

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The claim that "the customer is king" has always rung hollow. But now the digital marketplace has made it come true, says Paul Markillie

IT IS the biggest advertising event of the year. On February 6th, half the households in America sat down in front of their televisions to watch the 2005 Super Bowl. Never mind the game: the Super Bowl is a showcase for television commercials, and more than a quarter of the viewers tune in just to watch the ads. For days before and after the event, these are discussed in the newspapers, on radio and on TV. At an average cost of $2.4m for a 30-second slot, a Super Bowl commercial is the most expensive pitch an advertiser can make. For some, such as Anheuser-Busch, it has become an institution. The brewer's decision to drop one of its ads from the ten slots it had booked made headlines. The commercial was a cheeky take on Janet Jackson's "wardrobe malfunction" (a slipping top) during the half-time show at the 2004 game. The resulting publicity prompted large numbers of people to visit Anheuser-Busch's website to look at the ad, which meant that probably as many saw it as if it had been screened.

The Super Bowl is a great excuse for a party, especially for the advertising industry. It shows that people still enjoy ads that are creative and entertaining. But it raises an awkward question: does it actually sell any more bottles of beer, cars or pills for erectile dysfunction? Although TV viewers tend to be able to recall a particularly good commercial, many cannot remember the product it featured. And for the most part they try to avoid the rising barrage of ads. Getting their attention is becoming increasingly difficult, because audiences are splintering as people use different kinds of media, such as cable television and the internet. The choice of products and services available is multiplying, but at the same time consumers have become more sceptical about claims made for products. In today's marketplace, consumers have the power to pick and choose as never before.

All-seeing, all-knowing

This new consumer power is changing the way the world shops. As this survey will show, the ability to get information about whatever you want, whenever you want, has given shoppers unprecedented strength. In markets with highly transparent prices, they are kings. The implications for business are enormous: threatening for some, welcome for others. For instance, the huge increase in choice makes certain brands more valuable, not less. And as old business divisions crumble, a strong brand in one sector can provide the credibility to enter another. Hence Apple has used its iPod to take away business for portable music players from Sony; Starbucks is aiming to become a big noise in the music business by installing CD-burners in its cafés; and Dell is moving from computers into consumer electronics.

“I am constantly amazed at the confidence level and sophistication of the average consumer,” says Mike George, Dell's chief marketing officer and general manager of its consumer business in the United States. Dell soared to the top of the personal-computer business by cutting out retailers and selling directly to consumers. If Dell changes prices on its website, its customers' buying patterns change literally within a minute. “That tells you people are well-researched and knowledgeable,” adds Mr George.

Even buying a car, long considered to be one of the worst retail experiences anyone can have, is being transformed. Over 80% of Ford's customers in America have already researched their prospective purchase on the internet before they arrive at a showroom, and most of them come with a specification sheet showing the precise car they want from the dealer's stock, together with the price they are prepared to pay. Similarly, more than three-quarters of mobile-phone buyers in America do their research on the web, even though only 5% buy online, says John Frelinghuysen of Booz Allen Hamilton, a firm of business consultants. They still want to go to a shop to hand over their money and get their phone, but first they want to see exactly what the service package covers, and to read what other users say about their proposed purchase.

Disintermediation—seems to be in the air

With consumers becoming increasingly empowered, how can the marketing, advertising and communications firms that companies use to promote their products hope to get their messages across? And what does it mean for media businesses relying on advertising revenue, the traditional channels for reaching this increasingly elusive audience? Disintermediation—the process of middlemen being cut out—seems to be in the air. The three big TV networks in America have all hedged their bets by acquiring cable channels. The advertising business is reorganising itself, seeking safety in size. Many agencies are now clustered into four big global groups: America's Omnicom and Interpublic, France's Publicis and Britain's WPP. In some ways they are recreating the big, vertically integrated advertising giants of the past, but with separately run companies to deliver the range of specialist marketing services they think their clients will need in the future.

So what will that future hold? “For the first time the consumer is boss, which is fascinatingly frightening, scary and terrifying, because everything we used to do, everything we used to know, will no longer work,” says Kevin Roberts, chief executive of Saatchi & Saatchi, part of Publicis. Shelly Lazarus, head of Ogilvy & Mather, part of WPP, is more sanguine. “Advertising is as vibrant as it has ever been. It's just that the way you define it is so much broader now, with new ways to reach people,” she explains. “In the past you would keep pounding the creative message out into the market place and look at reach frequency,” says Howard Draft, a veteran direct-marketing expert and chief executive of his eponymous New York agency, part of Interpublic. “Well, basically that is dead. What you have today is an informed consumer who is taking control of the way he learns and hears about products.”

Companies with some of the world's biggest advertising budgets are beginning to look for new ways of attracting consumers' attention. Jim Stengel, global marketing officer for Procter & Gamble (P&G), is one of the advertising industry's harshest critics, awarding it a “C minus” for its ability to embrace new media. And Larry Light, who has been giving McDonald's a makeover as its chief marketing officer, says bluntly: “The days of mass marketing are over.”

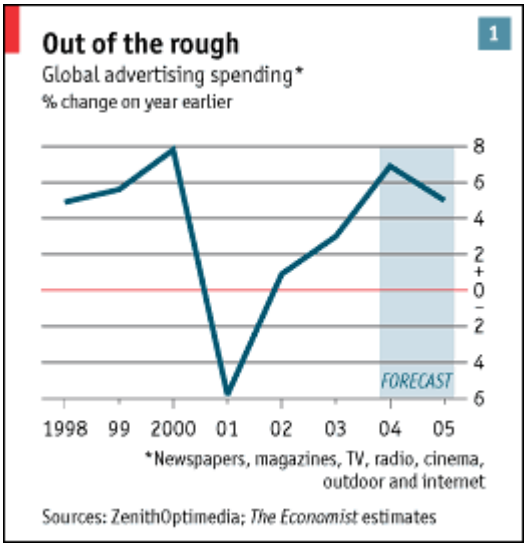
Mass retailing, however, looks as healthy as ever. The supermarkets are taking an increasing proportion of consumer spending—and on a lot of things beside groceries. A growing part of Wal-Mart's business comes from people searching online for information on products such as consumer electronics, and then visiting a store to make a purchase. “I think it works to our advantage, because we are the price leader,” says Lee Scott, chief executive of the world's biggest retailer. “There's power for them and us.”

Consumers, of course, care not a jot about marketing machinations. They are delighted to have more choice, which makes it easier for them to turn their back on a company they do not like and buy elsewhere. For some this is sweet revenge. “Consumers have become jaded and cynical,” says Rob Markey, a partner at Bain & Company, a consultancy. “There is a pile of broken promises heaped on the floor.”

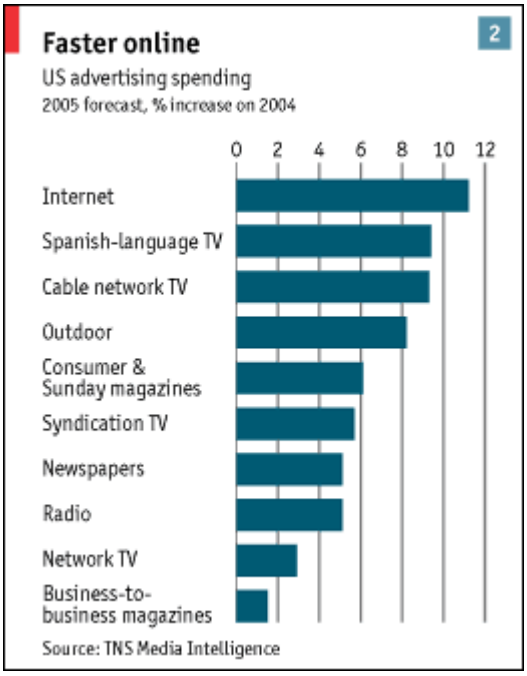
The ads we love to hate

In fact, consumers have been telling market-research companies for 50 years that they do not trust advertising. But they have become even more negative about it recently, says Eric Schmitt of Forrester, a research firm. Indeed, people are actively looking for ways to avoid ads, using tools such as pop-up blockers on web browsers and digital video recorders (DVRs) that allow them to skip the ads when they record TV programmes. Forrester found that 60% of the programmes watched by DVR users are recorded, and 92% of the ads on such programmes are skipped. The firm reckons that by the end of 2008, 36m households in the United States will be using DVRs. So what will happen to the $60 billion spent on TV advertising in America every year? Mr Schmitt thinks that if the TV industry can no longer guarantee its audiences, a lot of that money will move elsewhere.

For the moment, advertising expenditure gives no hint of trouble ahead. The business is bouncing back strongly from the slump that began in 2001, when the bursting of the technology bubble caused a sudden collapse in ad spending. Worldwide advertising expenditure on the mainstream media and the internet in 2004 grew by around 7% to $370 billion, estimates ZenithOptimedia (see chart 1). Universal McCann, a media-services firm, uses different measures but sees a similar recovery. It says that in America last year $264 billion was spent on national and local advertising and other marketing, such as direct mail (a $50 billion business), up 7.4% on the previous year. And it expects ad spending in the world's biggest market to grow by more than 6% this year.



But the way that money is spent is changing. In America, growth in ad spending is led by the internet, Spanish-language TV and cable networks, according to TNS Media Intelligence, a media-monitoring company (see chart 2). And as with P&G's $4 billion advertising budget, a growing proportion is



shifting from mainstream media, such as television, radio and print, to new media and other forms of sales promotion, such as direct mail, public relations, promotions, sponsorship and product placement. Collectively this sort of spending, sometimes called “below-the-line” advertising, or marketing services, is already worth more than twice what is spent on traditional display advertising. Together, the two sorts of spending added up to more than $1 trillion last year, says WPP.

By comparison, the $10 billion or so spent on internet advertising in America last year looks tiny. But it was 32% up on 2003, according to a study by the Interactive Advertising Bureau and PricewaterhouseCoopers. And that growth is accelerating, leading some forecasters to suggest that the online ad market could double in value this year. The internet is also becoming a lot more sophisticated as an advertising medium, beyond banner ads and pop-ups. In search advertising, companies buy words that, if they appear in searches made on sites such as Google or Yahoo!, will bring up a link to the company's website, displayed alongside the search results. The advertiser pays only if someone clicks on his links. This makes the results of search advertising reassuringly measurable, because tracking how many people go on to make a purchase is relatively easy. Google is beginning to work like an advertising agency, placing small text-based ads on other people's websites on behalf of its clients and splitting the revenue with the website owners. Google's software scans the sites to match the ads it serves up to the site's content.

Local search could be the next big moneyspinner on the internet—for whoever comes up with a winning formula. Microsoft's MSN site, for instance, will provide details about a local shop, and a map to get you there. A9, a new search engine from Amazon, has a feature called “Block View” with pictures of streets and their shop fronts, so if you have forgotten the name of the restaurant you are looking for, you may be able to recognise it in the picture. The next step will be a feature that allows users to “click to call”. Initially this service is likely to be free, but in time it could be developed into another big source of online revenue.

Media from dawn to dusk

Some changes in consumer behaviour that were already under way have been speeded up by the growing use of the internet. For example, consumers are spending more time with media of all kinds: currently about ten hours per person per day in America. According to Veronis Suhler Stevenson (VSS), a New York-based media merchant bank, this is likely to grow to 11 hours by 2008. James Rutherfurd, the bank's managing director, thinks this is due to a relatively new phenomenon he calls “media multi-tasking”: using different media at the same time. “This has enormous implications for advertisers and programmers,” he says. “It used to be that they were competing to get you to turn on the television. Now the TV may be on, but they are competing to keep your attention on the TV as opposed to the computer screen, the magazine or the iPod.”

Fujio Nishida, chief marketing officer of Sony's electronics division, points out that this forces advertisers to think very carefully not only about which media to use for the market they want to reach, but what people are likely to be doing when their ad appears. In Japan, he says, in the past you could be fairly sure that 90% of your potential targets would be watching TV at some point between 8pm and 10pm; but now only 70% may be watching and 60% will be using the internet—many doing both at the same time. Advertisers can take advantage of this by putting on TV ads specially designed to encourage consumers to go straight to a website, as Sony has done.

Consumers are spending more time with media of all kinds: currently about ten hours per person per day in America

“Who actually controls distribution in this type of world?” asks Bill Gossman. “The individual does. That's where the ultimate consumer power comes from.” His company, Revenue Science, is developing new ways of “behavioural targeting”. This involves analysing online consumer behaviour and then delivering ads that are likely to be relevant to groups with common interests. Mr Gossman thinks that as the world becomes more digital, his techniques will increasingly be used by all kinds of electronic media.

Amazon, which has long evolved from an online bookseller into a mass retailer, uses a form of behavioural targeting by suggesting products its customers might like, based on their past purchases. Jeff Bezos, Amazon's chief executive, was among the first to spot that the transparent pricing and product information the internet was able to provide would allow people to shop just about anywhere. The trick was to make it easier for them, so Amazon's website now operates as a shop front for lots of other companies too. And it gives customers the chance to read not only the sales blurb but also other customers' comments on the products.

For some companies this is scary stuff—the same as throwing open your customer-relations files and hoping that people have said enough nice things about you. Companies can, of course, try to control everything that is said and written about them through advertising and public relations. But nowadays a web search can turn up all sorts of skeletons in the cupboard, especially from news groups where people post comments, from online journals (called “web logs” or “blogs”) and more recently from “podcasting”, in which individuals produce their own audio programmes for others to download to their Apple iPods or other MP3 players. Video versions of this are sure to follow. Not all of this can be dismissed as amateurish twaddle. Microsoft, for instance, is taking blogs seriously enough to have hired its own celebrity blogger, Robert Scoble, even at the risk that he might be scathing about the company's products.

This is a clever move. The less control a company has over its marketing message, the greater its credibility, says Pamela Talbot, an expert in consumer-product marketing and chief executive of the American side of Edelman, a giant public-relations firm. Indeed, Saatchi & Saatchi's Mr Roberts thinks marketing departments must accept that brands no longer belong to them, but to the people who use them. The most valuable users of a company's brand are what he describes as “inspirational consumers”—people who are closely associated with a company and its products. It does not even have to be another company. Some of the most successful agents for generating a buzz—and plenty of free publicity—can be the people who run the business.

For example, the celebrity status of Sir Richard Branson has rubbed off on the Virgin brand, so his businesses, from music to airlines to space travel, get instant consumer recognition. Stelios Haji-Ioannou, a familiar face in Britain, founded easyJet, one of Europe's first cut-price airlines. Mr Haji-Ioannou, who describes himself on his business card as a “serial entrepreneur”, believes that a brand represents “a promise”. So whether he is attaching his name to a car-rental business, a new no-frills hotel chain or a new cruise line, the consumer knows what to expect from the person putting his reputation on the line. Donald Trump has also turned himself into a brand, but the New York businessman is especially well known for “The Apprentice”, a business reality show on TV. This is a huge hit in America (unlike Sir Richard's own show), and companies pay to be involved.

What is it worth to have the contestants on such a show design a new product for your business, as Burger King did? The fast-food chain then went on to mount a similar competition on its own website. Measuring the effectiveness of such marketing is not easy. The marketing profession has yet to catch up with new media, says Malcolm Hunter, chief strategy officer of Vizeum, a London

agency set up to seek out opportunities from recent trends. “Consumers are real people, and companies that understand that can do well.” That might seem blindingly obvious, but he is right to remind the industry of it. Advertisers are still inclined to depict their activities as a form of warfare. Consumers are “targets” and ad “campaigns” are meant to “wear down resistance” and score “hits”.

The rise of consumer power can best be charted through three industries: packaged goods, consumer electronics and cars. In each of these three very different categories consumers carry increasing clout. As the cost of the product goes up, they spend more time and effort considering which make and model to buy. The battle for their attention and money begins at the supermarket.

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Warfare in the aisles

Mar 31st 2005
From The Economist print edition

Competition in your local supermarket is getting vicious

NEXT time you are hurtling through a supermarket, slow down and look around the packaged-goods battlefield. There are the massed battalions of supermarkets' own labels—no longer just cheap stuff, but increasingly segmented into things like ready meals, “healthy” options or pricey treats. Confronting them are goods from branded manufacturers, which must pay for the privilege of appearing in the grocery department. And surrounding everything are shelves heaving with personal-care products, clothing, books and DVD recorders.

Even if you can resist the smell of fresh bread from the in-store bakery, other forms of psychological warfare will entice you to spend more than you intended. Dairy products, which most people buy regularly, tend to be lined up at the back of the store, so shoppers have to pass along the aisles where temptation can be put their way. Positioning is everything: people typically spend at most six seconds selecting a grocery item, and if they cannot find it they may not buy it. The best slots are at adult eye-level, so that is where relatively expensive products are put, often to the right of popular items (to increase the chances that right-handed shoppers will pick them up). Price is not always the deciding factor: more than half the people leaving a supermarket cannot recall exactly what they paid for individual items.

Those rules apply in supermarkets no matter where they are. If you live in America, you might be shopping in a Wal-Mart, run by a company that has become the world's biggest retailer by driving down suppliers' prices and passing the savings on to its customers. In Britain, you could be in a Tesco store, owned by the biggest of four large supermarket chains that between them sell around three-quarters of the country's groceries. Tesco's recent growth has come mostly from expanding into non-food lines. In China, you could be in a Carrefour, run by the French-owned inventor of the hypermarket, which by the end of this year could have some 300 Chinese stores, making it the leading foreign chain in a hugely coveted developing consumer market.

Pity the shopper, says Saatchi & Saatchi's Mr Roberts—and in a supermarket the poor creature is usually a woman. There are so many items on offer and they are so jumbled up that she often cannot find what she is looking for. It is cold because fresh produce needs to be refrigerated on open shelves to make it easy to pick up. “The lighting is awful and she has to listen to Phil Collins,” he commiserates. “She can't wait to get out.” Mr Roberts knows a bit about consumer goods. He was a marketing executive with P&G, Gillette and Pepsi-Cola before becoming the head of one of the world's best-known advertising agencies.

Female supermarket shoppers' interests range from health, family matters and the environment to politics and social issues, such as the welfare of overseas workers making some of the products they buy. They also share and discuss the information they acquire, much more so than men. This is how they become attached to certain brands and products, says Saatchi & Saatchi. So it is no good simply to bombard shoppers with ads for items that are invariably billed as bigger, brighter, stronger and so on. It leaves them bored to tears, says Mr Roberts. In order to reach and influence them, packaged-goods producers have to engage them in many different ways—for example on the internet, where many women now spend as much time as they do watching television.

Who needs brands?

With so much choice and information available, why don't shoppers simply ignore brands and make a purely rational, economic decision about what to buy? Because that is not human nature, says Jez Frampton, chief executive of Interbrand, a London brand consultancy. “Brands offer trust,” he expands, “and they enable people to navigate through complex markets.” There is something in that. In the old Soviet Union, where all products were supposed to be the same, consumers learnt how to read barcodes as substitutes for brands in order to identify goods that came from reliable factories.

Consumer-goods companies invest in brands to convince supermarkets to stock their products and to get shoppers to buy them. This is never straightforward. Jeremy Bullmore, an advertising guru with WPP, once likened brand-building to a bird building a nest “by the scraps and straws they chance upon”. Consumers used to get most scraps of information from advertisers. Now they are more likely to find them by themselves.

To keep in touch with their customers, consumer-goods companies are shifting their spending away from traditional media, such as network TV and print, to other types of promotion. A decade ago, P&G used to put about 90% of its advertising budget into TV, but now it spreads the money more widely. For some new products, TV may account for only a quarter of total spending. P&G has long been an advertising pioneer: by sponsoring radio programmes, and later TV shows, as a way of promoting its detergents, the company helped to create a new term: “soap opera”.

Nowadays, advertisers want to do more than just sponsor a TV show

Nowadays, advertisers want to do more than just sponsor a TV show. Kellogg's, for instance, promotes its cereal brand, Special K, in co-productions with the Discovery Health Channel in America. The benefit of a strong brand is that it can convey information about a product very efficiently, reckons the company. Nevertheless, even venerable brands have to be worked on constantly to keep them fresh, says Alan Harris, Kellogg's chief marketing officer. “In some cases we have got to experiment and do things differently to learn how our brands can operate in this different environment.”

A brand may have only seconds to convey its message. “If I'm going to get shelf-space in the major retailers I need to stand for something, and that something needs to be relevant and it needs to be clear. That's what brand-building is at its most basic,” says Scott Garrett, the brand director for Heinz in Britain and Ireland. Some of Heinz's ads are classics. The company's “Beanz Meanz Heinz” campaign, for its tinned baked beans, first ran on British television in the 1950s, and many British consumers still recognise the phrase. But Mr Garrett accepts that it would be unrealistic to expect today's shoppers to march into a supermarket and demand his products. “I have to get people pre-dispositioned to the Heinz brand and then hope that the wavering hand on the shelf veers towards the turquoise can [the colour of the Heinz baked-bean label] rather than another one.”

To make things even more complicated, marketeers detect a growing trend towards “cross-shopping”: the same people buying very expensive and very cheap things at the same time. They might splash out on a $500 Gucci bag and then economise with a $5 T-shirt as they flit from Saks Fifth Avenue to H&M. Buying some things from discount chains is considered “smart”, even for people who can afford to shop elsewhere. Some chains, such as Target, an American mass-merchandiser, compete against Wal-Mart with a more carefully edited selection of goods and employ top designers for some own-label goods. Now Wal-Mart has taken global its successful George brand of clothing, initially developed by George Davies for the British supermarket chain, Asda, that Wal-Mart bought in 1999.

Will the big supermarkets take an ever-increasing slice of consumer spending? Target and others have shown that there are ways to counter-attack. Some people avoid supermarkets and buy their groceries online from firms such as Fresh Direct in America and Ocado in Britain. The internet has also enabled suppliers to go direct to the consumer. Riverford, a British organic-vegetables specialist based in Devon, runs a successful web-based home-delivery service. It entertains customers with recipes and nuggets of information about products—such as that supermarket carrots are mostly chosen for their ability to pass the “wellie test”. This means they can be bashed against a wellington boot without breaking, which shows that they will be easy to harvest, clean and polish. Riverford says its varieties are selected for flavour, and offers no apologies if they arrive with a bit of mud attached.

The big retailers like their private labels because they typically provide 5-10% more profit than branded products, says Euromonitor International, a market-research company. This limits the pricing power of the branded-goods producers: consumers may not be able to recall the price of an individual item, but they usually remember whether their purchase was more or less expensive than similar items.

Here today, gone tomorrow

But it is hard to stand out from the crowd. Every day an astonishing 400-700 new brands are added to the 2.1m brands tracked by TNS Media Intelligence. “It's very easy to get a brand out there,” says Steven Fredericks, the company's chief executive. But there is no guarantee that any of them will be noticed, he adds. “Consumers' attention is becoming a scarce economic resource.”

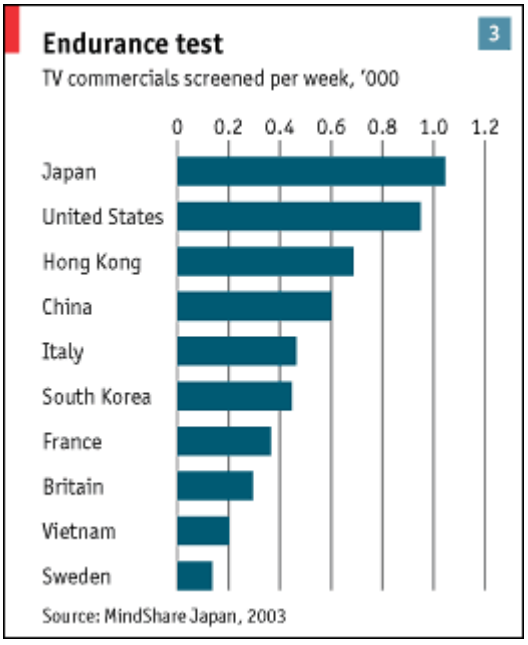
To boost their sales and negotiating power with the supermarkets, consumer-goods companies are concentrating on their most powerful “superbrands”. Unilever, Europe's biggest producer of consumer goods, has cut its portfolio of brands from 1,600 to around 400. P&G, which in 2000 had ten brands with annual sales of more than $1 billion each, by last year had increased their number to 16. Its $54 billion deal earlier this year to buy Gillette will add another five superbrands.

The merged group is also heavier on beauty and grooming products, which have strong growth potential, especially in the Chinese market. Having been sold many fake and shoddy products, Chinese consumers want brands they can both trust and afford. China is already P&G's sixth-biggest market and could in time become its most important after America.

With fewer brands, producers can concentrate their resources to better effect. This is especially necessary in Japan, the second-biggest advertising market in the world after America, and one of the most cluttered (see chart 3). Drinks and snacks are one of the hottest areas: hundreds of new ones are launched every year. Andrew Meaden, the chief executive of MindShare Japan, a media agency, calls the process “commercial Darwinism”. Newness matters at lot, so many products appear just to catch the moment. Most struggle and die, not only in their efforts to get noticed but also in the battle to find shelf space in Japan's small shops. And if you are selling to young people, “you have to

be much more savvy about how you talk to them," says Mr Meaden.

Some companies are trying to cut through the noise with a combination of old and new marketing techniques. Switzerland's Nestlé, for instance, has discovered that people get stressed by having to decide what to cook for dinner, so in Japan it provides recipes that its customers can download to a mobile phone, enabling them to pick up the ingredients on their way home. Other companies provide coupons over the internet and deliver them to mobile phones. Like the 251 billion coupons which TNS Media Intelligence says Americans religiously clipped last year from newspaper inserts, these electronic ones can be exchanged for samples or discounts on new products. In such ways, Asia is well ahead in its use of digital media for marketing.



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Man's best friend

Mar 31st 2005
From The Economist print edition

Not a dog, but a mobile phone

SATURDAY morning in Myeong-dong, and the huge shopping district in the centre of Seoul, South Korea's capital, prepares for a long day and night. As the hawkers move in with their barrows, a man selling fried squid sets up his stall next to a woman displaying shawls with Louis Vuitton logos. Real or fake, just about every fashion brand in the world can be bought here, if not from the hawkers, then certainly from the hundreds of stores, shopping malls or the massive Lotte department store. A solitary preacher stands outside a Starbucks singing hymns, as if to steer the swelling crowds away from the path of Mammon. Eventually he packs up and leaves, drowned out by the music blasting from the sound systems of trendy boutiques. This is consumerism at its most strident. So where is the internet?

It is all around. Start with shops, many of which display signs showing their website address. Then watch the shoppers, especially the younger ones. They have acquired new skills: walking through a crowd while studying the screen on their mobile phone, or examining a rail of clothes while using their thumb to text a friend. Some will also be checking their bank accounts, getting sports news, keeping track of an online computer game, or downloading a new ring tone or avatar—a cartoon-like character that will appear as their digital representative on mobile-phone screens and in online games. Plenty will also be listening to music downloaded from the internet. South Korea is one of the most wired countries in the world. That is why Meg Whitman, the chief executive of eBay, the biggest online auctioneer, sees the country as a “window into the possibilities” of what might happen when high-speed broadband services are widely adopted in other places too.

In 1960, South Korea had only one telephone for every 300 people—barely one-tenth of the world average at the time. Today, more than 90% of households have a fixed-line phone, three times the world average. Moreover, three-quarters of the population carry mobile phones, which means that pretty well everyone has one, apart from tiny tots and a few elderly people. With government encouragement and the benefit of a densely populated, mainly urban environment, South Korea has been relatively easy to wire up. The country boasts one of the highest internet-penetration rates in

the world, with more than 31m of the 48m population now having access to the web, most of them via high-speed services. Apartment blocks display government notices by the front door certifying the speed of their internet connection.

Those connections are about to get even faster. In January, the government licensed the country's three main telecoms firms, SK Telecom, KT and Hanaro, to offer a new high-speed wireless internet service called WiBro. From next year, this will allow mobile users to surf the internet at much higher speeds than they do now, as well as more reliably. Somewhat alarmingly, the Ministry of Information and Communication (MIC) says it will work even in a car travelling at 60km an hour.

For the country's consumer-electronics makers, this vibrant home market is an invaluable development laboratory. Samsung Electronics, South Korea's biggest consumer-electronics company, has already produced a mobile phone especially for watching high-quality video. Its rival, LG Electronics, has even unveiled one with a built-in personal video recorder, which automatically switches to “record” if the user needs to take a call. Lots of other new gadgets are coming, including phones that can read the radio-frequency identification tags that will eventually replace the barcodes attached to goods. These phones, says the MIC, could be used to check the expiry date of fresh produce, say, or pick up a signal from a poster advertising a new movie, which would then prompt you to download a preview.

There seems little doubt that South Koreans will flock to use many of these services: the MIC expects the number of WiBro subscribers to rise to over 9m within six years. But the way the locals use these new technologies may not translate perfectly to other countries. Watching video on your mobile phone already looks like a winner in Japan, because many Japanese face long commutes on public transport. But if you are stuck in a traffic jam on Interstate 405 on your way to work in Los Angeles, you might do better to tune your phone to pick up high-quality satellite radio instead.

E-mail is so last week

A more intriguing question is what will happen to services that many people now take for granted. For instance, many young South Koreans would be bemused by mobile devices with keyboards such as the BlackBerry, which is popular with businesspeople in America for keeping up with their e-mail. The South Koreans already have handsets that can do this, but they do not think e-mail is particularly cool, and they do not like the spam that comes with it. They prefer to send text messages, which are more immediate and are certain to be delivered instantly. South Koreans in their teens and 20s increasingly look on e-mail as an old and formal means of communication, according to one study. “You would exchange e-mails with your bosses, but not your friends,” says a young South Korean marketing assistant. The arrival of more features could reinforce this trend further: a new Samsung phone uses voice recognition to convert speech into text.

However, some of the new features that mobile phones will offer look like being universally popular. Walk into the experimental coffee bar at the MIC's offices in Seoul, and the screen of a handset lights up with the menu. You can order two cappuccinos, pay electronically and receive a receipt, all on the handset. Mobile phones are already configured for some basic e-commerce activities such as downloading music, and in Asia a few can already be used to make some purchases in shops. “There is a future, not too far away, when the only thing you will need to leave home with is your mobile phone, because it will be your wallet and your key and all the things it already is,” says David Wheldon, global director of marketing and brand communications for Britain's Vodafone, the world's biggest mobile operator.

This summer, a new service will begin in Spain, and later spread to other European countries, to make mobile payments easier. Called Simpay, it is jointly owned by some of Europe's largest mobile operators. Simpay is designed to function as a non-profit organisation with a common brand. The idea is that eventually all of Europe's 70m mobile users will be able to click on a “buy with Simpay” logo whenever they use their mobiles to surf the web. Any purchases will

then be charged to their mobile bill. If Simpay is anywhere near as successful as PayPal, eBay's online payments system, it might give the banks a jolt: PayPal now has more than 60m account-holders worldwide.

The leap from paying for a music download to paying for your groceries electronically is not very big. As mobile phones are increasingly used for shopping, their appeal as a medium for reaching consumers at the point of purchase will grow. Along with services such as global positioning systems, which some handsets already provide, and software that can monitor online behaviour, a handset could offer all kinds of novel things—even telling you where to find that item you are searching for in the supermarket, and that it is on special offer.

Attention, please 4

What else were you doing when you last...?, %

	watched TV	listened to the radio	read a newspaper	used the internet	talked on the phone
watched TV	*	9	38	17	54
listened to the radio	13	*	21	16	30
read a newspaper	43	21	*	2	14
used the internet	20	17	2	*	19
talked on the phone	57	25	14	18	*

Source: Forrester Research, North American users, 2004

Mobile-media consumption will overturn many assumptions about marketing

“Anything that is screen-based will be able to be used as an ad-serving mechanism,” says Andy Jung, director of advertising and media for Kellogg's. Other marketeers agree. The mobile phone is a very personal device: a faithful companion that nearly always stays with its owner. Technologists used to worry about how to win the battle for the digital home, but perhaps the bigger battle is for the individuals who live in it. Mobile-media consumption will overturn many assumptions about marketing, says Steve Morris, the chief executive of Arbitron, a New York-based media and market-research firm. “The notion that all this stuff takes place only in the home is so outdated.”

The mobile phone will become an even more powerful marketing medium, says Vodafone's Mr Wheldon. “But it is one where we proceed with gigantic caution.” People may use their mobile services differently in different countries, but consumers everywhere have one thing in common: they never seem to have enough time. If too many ads are pushed on to the screens of handsets, users could become dissatisfied with their service provider and get very annoyed with the advertisers, as they already do about “pop-up” ads on the internet. Whichever way mobile-phone marketing evolves, Mr Wheldon says it must be “hugely respectful” of users and their time. Another victory, then, for consumer power.

The mobile phone is itself a powerful brand builder, as Samsung's success has shown. From near-bankruptcy after the 1997 Asian financial crisis, Samsung is now neck-and-neck with America's Motorola as the second-biggest maker of handsets after Nokia. In terms of market capitalisation, the South Korean company is worth a lot more than Sony, which has long been the king of consumer electronics. Samsung was seen as a producer at the low end of the price spectrum and had a poor reputation for quality, especially in South Korea itself. Yet by concentrating on making handsets that worked better than its rivals', at first in its home market and then for export, it improved its image. Good-quality handsets got people to look at Samsung's other products, such as digital cameras and flat-screen televisions. This was reinforced by astute marketing, using mainstream advertising as well as non-traditional methods, such as the product placement of futuristic gadgets in “Matrix Reloaded”, a cult movie. It was all part of the strategy of Samsung's chief executive, Yun Jong-yong, to move the company's brand upmarket and sell products that could attract a premium rather than slug it out in the discount chains.

This strategy has not escaped the notice of Chinese producers. Few people doubt that, given enough time, some Chinese brands will become world leaders. But a number of Chinese firms seem anxious to short-cut the process by acquiring western brands—although not necessarily very exciting ones. China's TCL, for example, has merged its TV business with France's Thomson, whose brands include RCA. Lenovo is taking a controlling stake in IBM's PC business, and Shanghai Automotive has been looking at Britain's MG Rover, which BMW discarded. Both Haier and Kelon, which make domestic appliances, also have global ambitions.

Give them what they want

There are three important stages in building a strong brand , says Bain's Mr Markey. The first is to have a deep insight into what customers really want—one that goes well beyond traditional market research. The second is relentless attention to making such products. Get the first two right, and the third follows as a matter or course: consumers become part of the marketing and sales force. This happens, says Mr Markey, because they are “so enthusiastic about a product or service they can't help but tell their friends and colleagues about it.” Word of mouth, as every marketeer will tell you, remains the most powerful form of product promotion.

But what if your brand has become tarnished and needs polishing up? That is the task confronting Philips, which in the 1990s lost its way in the consumer-electronics business. A sprawling European multinational that makes everything from light bulbs to televisions, it has been through numerous bouts of restructuring. What are its chances of gaining a new image against companies such as Samsung, and redoubled efforts by Japan's big producers, such as Sony and the Matsushita group, whose brands include Panasonic?

Andrea Ragnetti, Philips's new marketing boss, thinks it can be done. He previously worked at P&G and Telecom Italia, and has fastened on a hugely frustrating aspect of the digital world: getting all this stuff to work. Some products have become extremely complicated, with instruction books bigger than anything else in the box. Philips cites studies saying that some 30% of home networking products are returned because people cannot get them to work, and almost half the people thinking about buying a digital camera delay their purchase because they fear they might find it too complicated. So Mr Ragnetti's plan for Philips is to make things easier. His motto is “sense and simplicity”. This is not just a marketing slogan: all products, from heart defibrillators to coffee machines, must become easy and intuitive to use.

Steve Jobs, Apple's chief executive, is already brilliant at turning consumers on. Apple has long had a small but fanatical following in the PC business. It has now become the leader in portable music, a business once dominated by Sony with the Walkman. Apple's stylish iPod is the most popular digital player, with more than 4.5m sold in the last quarter of 2004 alone, and it links seamlessly with Apple's music-download service, iTunes, which sells more than 1m songs every day. In January, Mr Jobs unveiled the Mac mini, a basic version of his Macintosh computer selling at $499. With this low-priced machine, Apple thinks it can tempt people who may have bought an iPod (and become fans of the company) to ditch their Windows-based PC and switch to an Apple machine, which uses a different operating system.

Another company that has used its brand to venture into new territory is Dell. The conventional wisdom was that selling PCs direct to consumers would not work: they were complicated products and customers would want to take a good look at them in a shop before parting with their cash. That turned out to be wrong. Much the same concerns were aired last autumn when the company decided to expand into consumer electronics and sell its own line of 42-inch flat-screen high-

definition televisions. At $2,999, these were several thousand dollars cheaper than some rival products in stores. But surely people would want to see the picture quality before they bought?

Once again, not so. Consumers have become sophisticated and confident enough to understand technical specifications and did not need to see the picture, says Dell's Mr George. Many also put their trust in Dell's brand: if the Texas company could build good computers, it would probably make decent TVs too. This reveals another important change in attitude. “Consumers just don't have these historical brand affinities in the way they used to have them,” adds Mr George. But he is aware that brand value carries risks too: “We know it could be taken away from us at any moment.”

An important part of Dell's success has been that along with its direct-sales model it offers a customisation service. If a customer orders a PC online, he or she can ask for it to be configured in all sorts of ways. Yet when the order is placed, none of the components are in the factory. Within a day or so they have arrived from suppliers, been assembled into a PC according to the customer's specification and sent off to the delivery address. Carmakers may never be able to build a business as lean and as flexible as this, but they are working on similar lines to keep their customers happy.

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Motoring online

Mar 31st 2005
From The Economist print edition

Buying a car will never be the same again, thank heavens

“THE good news is we have attracted them. The bad news is they are who they are—they're a handful.” Jim Farley is talking about his customers. They are what marketing people call generation Y, a group born between 1980 and 1994. They have already turned some clothing, drinks and electronics brands into winners and losers. Now they are starting to buy cars. They have grown up with more choice than any other generation. They are busy and know how to shop around, both online and offline. They make 40% more complaints than their parents do about the same car. But then they never expect things to break, and refuse to put up with irritations an older generation would simply grin and bear.

It is not as though they are buying a Lexus, Toyota's successful luxury car, which can cost $50,000 or more. The division Mr Farley runs is Scion, an entry-level brand which the Japanese carmaker launched in June 2003. It is aimed at young people, with prices starting around $13,000. Mr Farley has found himself on a steep learning curve, but he thinks the lessons have been extremely useful. They could give Toyota a head start on its competitors, because by 2010 generation Y will be buying one in four cars in America.

Scion's marketing position was deliberately chosen to avoid being “mainstream”. Its range of cars, two small saloons and a boxy little van-type vehicle often seen scooting around the narrow streets of Tokyo, are certainly not the sort of car that generation Y's parents would drive; nor would the parents listen to the hip-hop music that Scion's customers enjoy. To connect with the youngsters, Scion takes its marketing to where they are: at cinemas, certain night clubs and listening to particular radio programmes before they go out in the evening. But Scion also tunes the “texture” of its marketing towards the more underground elements of that music scene. So when it sponsors

nightclub events, it hires local rather than national hip-hop artists; and when it arranges test-drive sessions, it parks the vehicles outside the local charity shop rather than Virgin Records.

But however careful you are, you can still get it badly wrong. In what was thought to be a good advertising buy, Scion took a commercial spot during “The Bachelor”, an American TV reality show in which single men are teamed up with potential brides. Despite high ratings, the show turned out to be too cheesy for Scion's customers. “We got hundreds of e-mails from owners complaining,” confesses Mr Farley. “They were so upset with us for contaminating the brand in their eyes.” Now he would rather spend money on developing owners' clubs and helping them link up with similar ones in Japan.

It all goes to show that market research can be awfully unreliable. Many companies have stopped trying to elicit views on products from focus groups, because they can be skewed by one or two strong personalities. When Germany's BMW decided to launch the new Mini Cooper in America, it was faced with a pile of figures that showed Americans did not want a small car—and the Mini would be the smallest in the market. Sports utility vehicles (SUVs) and pick-up trucks had overtaken cars, and SUVs were getting bigger and bigger. But the company thought it would be able to find some customers for its car. “All our gut feeling, and some of our research, led us to believe these would be interesting people,” says Jack Pitney, who runs Mini USA. Its customers would not come from any particular demographic group, but they might share a certain “mindset”. They would be different ages, brand-conscious, but not interested in status. And they probably travelled a lot, read a lot and were very internet-savvy. “We also thought these customers would not react well to aggressive marketing,” adds Mr Pitney.

Such people like to discover things for themselves, the company concluded. But how do you point them in the right direction? The original 1960s Mini had been a big hit in Europe and Japan, but very few were sold in the United States, so only 2% of Americans knew about it. To start them thinking, the company took some of the biggest SUVs it could find and put Minis on their roofs. They drove these around some of the main towns and handed out small business cards. On one side was a picture of the Mini, and on the other it simply said: “Coming to America”. Below was the address of the Mini USA website. This sort of campaign is an example of “guerrilla marketing”, designed to intrigue people and direct them to a website to find out what is going on. Once on the site, they would find it rich in information and “viral marketing” elements. For example, you could build yourself a customised Mini Cooper online and e-mail the specifications to your friends.

According to Mini USA, three out of ten people who configure a car online end up forwarding the specifications to a dealer and buying it. Customers who have used the company's website account for 86% of buyers. Because they can order a huge variety of both factory-fitted items, such as different body styles and colours, and dealer-fitted accessories, such as alternative lighting, audio systems and wheels, few Minis are likely to be exactly the same. Buyers of Minis and Scions seem very keen on customisation, but only at mass-production prices. “That is going to have a fundamental impact on product planning for the car business in the United States,” says Mr Farley.

Both Scion and Mini are relatively small fry. The number of Minis sold in America last year was around 36,000, a drop in the ocean of 16.9m vehicles sold overall. Still, that is more than three times the number of Minis sold during the entire eight years that the original car was on sale in America. The Mini factory at Oxford in Britain is working flat out and has become BMW's most productive plant anywhere.

Moving Motown

But the internet has changed much more than the buying of niche vehicles: it has also transformed the mainstream car trade. Selling cars used to be a relatively straightforward business. Customers might see an advertisement in a newspaper, perhaps pick up a brochure, visit a couple of dealers, decide on a model, haggle over the price and the trade-in value of their own car, order and take delivery. “Those days are gone altogether,” says Chuck Sullivan, Ford's director of business-development marketing.

With so many of its customers using the internet to research their planned purchases, Ford is changing the way it is spending its marketing budget. Four years ago, most of its advertising dollars went on traditional media, such as television, print and outdoor billboards. Non-traditional forms, such as the internet, accounted for only around 2% of the total. Now the share is 20%. One of the attractions of the internet is that its effects can be measured. For instance, a click on a banner ad on a website can be traced through to the company's own website, the selection of a model, the response of a dealer and ultimately a sale.

A website works like a living brochure, says Mr Sullivan. For example, Ford's F-150 pick-up truck, of which some 900,000 were sold last year, is shown in graphic detail. There was even a series of videos in which rival trucks were cut apart and their components compared with those of the F-150, to support Ford's claim that its pick-up is the toughest. Users can check models and prices, browse through the inventory of local dealers or get a quote for the one they have designed for themselves using Ford's build-your-own option.

So why bother with dealers at all? “The dealership is even more important than it used to be,” says Mr Sullivan. “People want to touch the vehicle, to smell the inside, to kick the tyres and take it for a test drive.” Beside demonstrating the product, dealers are also needed to manage the purchase and after-sales support, such as servicing. Moreover, they can play a big part in customising cars for buyers, fitting anything from different wheels to instruments and DVD systems, all of which could make a handy contribution to profits.

Many car dealers initially resisted giving consumers so much power, says Jeremy Anwyl, president of Edmunds, one of the earliest websites in America to provide online car-buying services such as road tests, vehicle comparisons and average selling prices and trade-in values. But he concedes: “A lot of them are now realising there are efficiencies on the dealer side too.” Research by Edmunds and others shows that the consumers who have benefited most from using the internet when buying a car are those who used to get a raw deal in the showrooms, including women and minorities. “So it's a great leveller in that respect,” says Mr Anwyl.

Indeed, carmakers would do well to study the way people compare vehicles online. Edmunds has found that by tracking the behaviour of website users, it can predict with considerable confidence how many cars different manufacturers will be selling four weeks hence, and where. Edmunds uses special software in order to screen out car enthusiasts who are just looking for information.

The company also has a good idea of what people say about different cars. Its website receives 2,000-3,000 reviews a week from buyers of new cars who fill out an online appraisal form. They also suggest improvements to future models. Another part of the company's site is a free-for-all area on which some 500,000 people regularly post items. If there is anything wrong with a vehicle, complaints will soon pop up here. Edmunds is now developing new products to commercialise this information.

As the carmakers have discovered, a website has become an essential part of doing business with consumers, and almost all their advertising now gives their website address. That makes a lot of

sense. William Makower, the chief executive of Panlogic, a digital-marketing consultancy based in Britain, explains that a typical television or print ad might get a few seconds of attention, but a website typically holds the browser's attention for 2-5 minutes. In Britain, he says, the internet is now the third most popular media form. This makes it rather puzzling that many companies devote only around 2% of their advertising budget to it.

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Target practice

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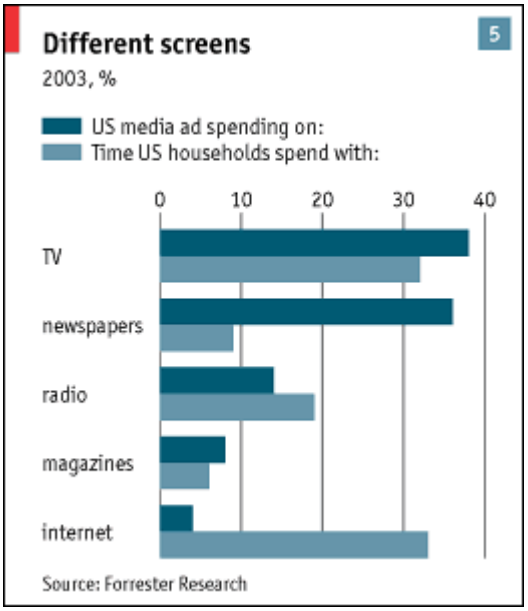
Advertising used to be straightforward. Now it has to be many different things to different people

IT IS not the sort of thing most people would notice, but for Madison Avenue, the spiritual home in New York of America's advertising industry, it signalled a sea change. In January, *Advertising Age* altered the rules for the trade publication's annual listing of top advertising agencies. Rather than covering just the creative side of the business, the list now includes companies with expertise in related disciplines, such as interactive advertising, direct marketing and public relations. Blame the pesky consumer for letting the low life in.

Adland is reacting to a glaring mismatch between dollars and eyeballs. Although most advertising expenditure goes on television and print, many of the people the ads are supposed to reach are not looking. Instead, they are playing video games, watching DVDs or, most popular of all, surfing the internet (see chart 5). Advertising agencies used to bill their clients on a media-commission basis, which gave them an incentive to recommend TV advertising because it was the most expensive and gave them the biggest commission. Now the agencies are mostly being paid on a fee basis, so they should be less reluctant to use other media. But business runs on numbers and advertising clients demand figures, especially on the return they can expect by spending their money in different ways.



The problem is measuring that return. “The research is lagging far behind the development of new media outlets,” says Mary Gerzema, head of communications planning at Universal McCann. And there are many other complicating factors that can skew the figures. The decision to buy something, for instance, might be made online, but if the purchase itself is carried out elsewhere, the customer might still change his mind. If he visits a shop, he may end up buying, say, an own-brand product because it turns out to be on special offer.

Some of the alternative forms of marketing can be measured reasonably well, such as the click-through response rate to internet ads. But how do you work out the return on investing in a sponsored hip-hop evening (a question another car company once asked Mr Farley of Toyota's Scion, who was stumped for an answer)? To make things even more difficult, media are now being delivered in lots of different ways. Yahoo!, for one, is steadily turning into an entertainment service. It is screening more shows on the internet, including premieres. “It makes media planning into much more of an art,” says Michael Wolf, head of media and entertainment for McKinsey, a management consultancy. “A lot of people try to apply science to it. The science is not working as well as the art.”

As Mr Wolf points out, increasing value is being placed on any medium that succeeds in aggregating a large audience of people with similar interests. Using adland's militaristic language, he explains that it is “no longer the shotgun approach, very much the rifle shot.” So which of the advertising and marketing businesses will prevail in this changing landscape? Here are the pitches.

Mine, all mine

Saatchi & Saatchi's Mr Roberts reckons there has never been a better time for the creative business. Agencies now have more freedom to express their ideas, he believes: “We are not going to be downtrodden by the research vampires because all the stuff they are looking at is no longer relevant.” Saatchi & Saatchi's strategy is to become “the hottest ideas shop on the planet”, he says.

By contrast, Mr Draft, the direct-marketing expert, insists that “the future is what we do.” He says the experience of direct marketeers and the information they have about consumers means that his type of agency is now best equipped to deliver measurable results. He uses a variety of media, including TV, specifically to garner responses, through reply cards, free telephone numbers or the internet. Direct-marketing techniques can also build brands, he says, pointing to successful campaigns Draft has run for Verizon, a huge American telecoms group.

Robin Kent, until recently chairman of Universal McCann, comes up with yet another angle: “The media planner is becoming the most important person on the planet.” He says that it is now impossible to create an advertising message designed for any particular group “if you have absolutely no idea how you are going to reach that consumer, where they are and what mindset they are going to be in.”

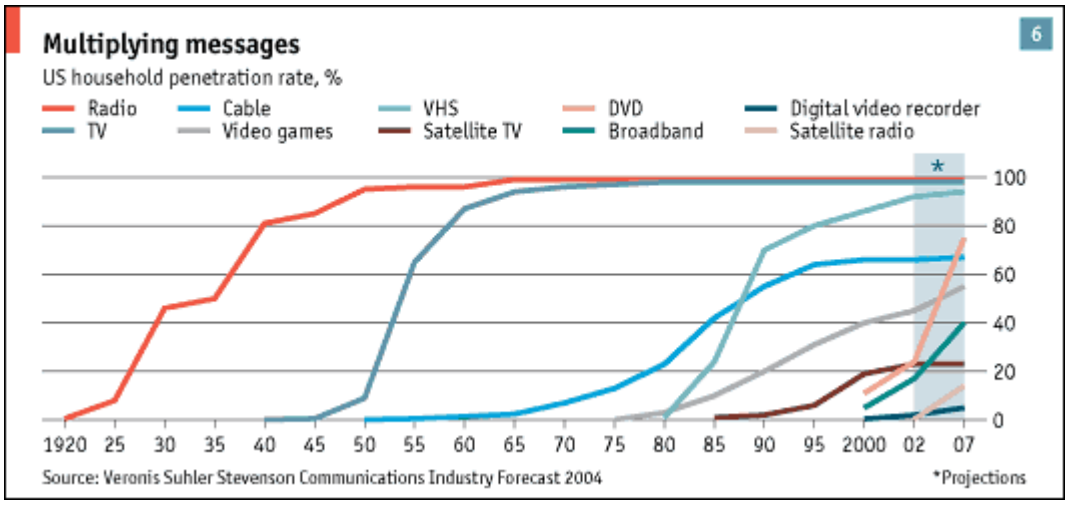
For his part, Richard Edelman, president of Edelman, bangs his own drum: “PR is now creating the runway for the advertising plane to take off.” Companies use PR firms to help them behind the scenes and to work their messages into the media. One example is Edelman's work on the launch of Halo 2, the second version of a hugely popular video game that runs on Microsoft's Xbox. Eighteen months before the game arrived in the shops, it was handed out to an “inner circle” of committed players in order to create a buzz of excitement. When Halo 2 was launched in November last year, it raked in over $100m in sales on its first day, thanks to pre-ordered copies—more than any movie has ever managed.

The elusive consumer they are all chasing is not only becoming more knowledgeable, but also demographically different from yesteryear's. From its skyscraper in Tokyo's Shimbashi district, Dentsu, Japan's biggest advertising agency, looks down on an ancient shogun hunting ground. Nowadays its clients' prey takes many different forms. Gone are the days when Japan mostly consisted of families of four, says Norio Kamijo, director of Dentsu's Centre for Consumer Studies. Today the market clusters around opposite poles. At one end is a greying population; at the other are people like the “parasite singles”, who live with their parents and spend whatever they earn on themselves, and the NEETS (not in education, employment or training). They all represent valuable consumer markets in their own way, but have almost nothing in common.

Other countries face similar fragmentation, and some of the groups are hard to place. Where, for example, would you pigeonhole Britain's “chavs”? They are young people likely to be found late at night in the centre of provincial British cities, probably drunk and behaving loutishly. Best avoided, perhaps, but as their uniform they have adopted certain styles usually associated with luxury brands, notably Burberry's famous beige check pattern. No matter that much of it may be fake, this has prompted Burberry to stop selling its beige check baseball cap and to give other colours more prominence.

With marketing becoming both more perilous and more complex, many companies are left “vastly confused and intrigued”, says Leslie Moeller of Booz Allen Hamilton. No matter how much you spend trying to promote a brand using mass media alone, “it is not going to get the job done.”

With numbers of viewers and readers declining, the future does not look very rosy for network television and newspapers. But even among these formats there will be winners and losers, says Mr Rutherfurd of Veronis Suhler Stevenson, the media merchant bank, so it would be unwise to count out older media completely. Indeed, TV never killed radio and video never killed TV (see chart 6). Moreover, there are signs that the decline in TV's share of audience has started to flatten, just as the proliferation of cable services has reached possible saturation point, adds Mr Rutherfurd.



And old media can evolve. Some broadsheet newspapers in Britain are now produced in more handy tabloid sizes; and the TV networks can combat their rivals with big-budget programmes that pull in huge audiences, such as the Super Bowl, the Hollywood Oscars and some of the better reality shows. Cable networks cannot usually afford such programmes. Besides, you never know what may turn up. Satellite radio, which suddenly appeared in America in 2001, now has around 4m subscribers, providing a small but potentially interesting alternative audience to terrestrial radio.

Advertisers have to be prepared to use any media, argues Ogilvy and Mather's Mrs Lazarus. An agency's expertise will lie in knowing how to craft communications in each sector and be flexible about how to put all the pieces together for a particular client in a particular market. As an example, she points to a successful campaign her agency ran in India for Hutch, one of the mobile services of Hong Kong-based Hutchison Whampoa. It portrayed Hutch as a faithful puppy that

followed his young master everywhere. Animals and children may be an advertising cliché, but this was a multi-media campaign, ranging from television to the internet and direct marketing. And it involved a media plan “as sophisticated as anything that runs anywhere in the world,” says Mrs Lazarus.

Measuring the unmeasurable

Whether advertising is an art or a science, people will not stop trying to measure it. After much criticism, Nielsen, part of VNU, a Dutch media group, is trying to overhaul its ratings system, which is widely used to measure TV audiences. Mr Fredericks, at TNS Media Intelligence, is also looking at new ways of tracking how and where ads appear. The effects of some forms of marketing, such as product placement, look next to impossible to measure. Most TV commercials are now tracked automatically, but making sure that someone who has been paid to consume a certain drink in a show on camera actually does so is a lot harder. The most ambitious effort to measure the effectiveness of advertising is Project Apollo, which is now recruiting 30,000 households in America to become the most closely studied consumers ever. Apollo, run jointly by Arbitron and VNU, will collect information on these families' lifestyles. To measure their exposure to electronic media, for example, they will carry an Arbitron device called a “portable people meter”. This device, the size of a pager, was initially developed to detect inaudible codes placed in radio and TV commercials. For Apollo, similar codes will be incorporated in other forms of electronic media as well, ranging from the cinema to background music in places like supermarkets and—where ads contain sound files—the internet.

A variety of methods will be used to find out how members of the households spend their day and what they buy. Nielsen's Homescan system, for instance, uses scanners to read the barcodes on all their purchases. Linda Dupree, in charge of new-product development at Arbitron, explains that although marketers gather up lots of information, it has always been difficult to put it all together to establish a link between exposure to ads and buying behaviour. This is what Apollo is designed to achieve. One of the first companies to sign up was P&G. Arbitron hopes that eventually several hundred of the top American advertisers will take part.

Mr Gossman, of Revenue Science, has his own ideas about the way advertisers will reach consumers in the future. His behavioural targeting software is already at work on many websites. For instance, it was used by the online edition of the *Wall Street Journal* to try to establish which readers were frequent flyers from their reading of travel-related stories and sections. Individuals using the websites remain anonymous, but they can be identified as discrete users by “cookies”, electronic tracers that show which websites they have visited. When the frequent travellers returned to the *Wall Street Journal* site, they were presented with American Airline ads in whatever sections they read. The response to the ads increased significantly, says Mr Gossman.

As most networked electronic media will probably be using internet-based technology and protocols, the same user could be tracked even when he uses different devices, such as a mobile phone or an interactive TV set. This, says Mr Gossman, allows audiences with common interests and passions to be grouped together, making them commercially attractive to advertisers, wherever they happen to be. “Networks used to be about distribution; now they are going to be about consumer information,” he says. Apart from delivering ads that are more likely to be relevant, the advertisers will also be able to limit the number of times an ad is shown to an individual in order to avoid irritating him. Some people may see this as an invasion of their privacy, but Mr Gossman says: “We don't know who you are, and we don't want to know who you are.”

“The consumer experience with advertising will improve,” predicts Arbitron's Mr Morris. The advertising industry must hope he is right. People are increasingly able to filter out ads. They can pay to avoid them, use technology to block them or simply ignore them. The average American is now subjected to some 3,000 marketing messages every day and could not possibly take all of them in. Two-thirds of consumers feel “constantly bombarded” with too much advertising and marketing, according to a survey by Yankelovich Partners, a firm of marketing consultants. Perhaps some of the back-door methods to reach consumers will get through. But many people can now spot an advert

dressed up as editorial—and if they can't, there are hundreds of news groups and bloggers on the web who will happily point it out to them. Today's consumers have plenty of champions.

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Buying the future

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Now they have assumed power, what will consumers do with it?

FIFTY years ago, when products were more individual, manufacturers had the upper hand. They could charge a lot for successful items because they were made in small quantities. As competition increased and became more global, there were more products to choose from and they increasingly resembled each other. This gave retailers the advantage because they could pick and choose which products to sell, and demand the best prices from suppliers. Now the consumer is taking command.

Shoppers' rights have been beefed up by new legislation, and much more information is readily available from consumer reports and the like. All this has made it harder for merchants to rip consumers off or sell them shoddy merchandise. But above all, it is the arrival of the internet that is responsible for the big shift in power. The web makes it easy for people to discover what they want to know and who offers the best deal. This could still be a retailer, but it could also be a manufacturer selling directly to consumers, or a trader on eBay who has bought a job lot and is auctioning it off at bargain prices. So start with the internet to see where consumer power may lead.

E-commerce is growing rapidly. Online shoppers in America during the 2004 holiday season—the busiest time for retailers, from November 1st to December 26th—spent $23 billion online, 25% more than in the same period in 2003, according to a regular e-commerce survey carried out by Goldman Sachs, Harris Interactive and Nielsen//NetRatings. Spending patterns on the internet are increasingly coming to resemble those in the high street. Clothing was the most popular item bought online in America, accounting for 16% of online sales, followed by toys and video games with 11% and consumer electronics with 10%. Jewellery was the fastest-growing category, with the value of sales doubling to $1.9 billion.

These figures, however, exclude services, such as online travel bookings—a business estimated to have been worth $50 billion in America in 2004, up about 25% on the previous year. That includes

bookings made with online travel businesses, through firms such as Expedia, Travelocity and Orbitz, and bookings being made directly on airline, hotel and car-rental websites. All this threatens the future of many high-street travel agents. Through their computers, consumers now have easy access to information that once only travel agents could lay their hands on.

But as firms making consumer goods, electronics and cars have found, the influence of the net extends well beyond buying goods and services online. A quarter of the people using search engines to get information about consumer electronics and computer products bought a product in the end—and 92% of those shopped offline, according to a joint study by Overture, a marketing company owned by Yahoo!, and comScore Networks, a firm that monitors consumer behaviour.

The group to watch closely is the younger generation. Young people are the most avid users of the internet because they have grown up with its benefits. In America, 18- to 34-year-olds make up 24% of the population, but account for 40% of all the web pages viewed. A joint study by comScore and America's Online Publishers Association provides a fascinating insight into their behaviour.

Tomorrow's world

More than any other group, the 18- to 34-year-olds access the internet from places other than home, school or work, especially if they are using a mobile phone. They seem to want to be connected wherever they go. They also see the internet as one of their most important sources of information and entertainment. Some 40% use the web to help them pick a film to watch, and to find out where it is playing. One-third use it to look up local restaurants and clubs. And every day, an average 30% of them visit an entertainment website, only slightly fewer than those who regularly read the arts and entertainment sections in newspapers. Perhaps less surprisingly, females are more likely to visit retail sites, whereas males surf the net in search of computer games, cars and sports.

For this age group, the internet will remain the most dominant medium in their lives, as it will be for the following generation—who even at primary school are using the web to do their homework. This does not mean they will reject the traditional retail environment entirely. Shops will be as much part of their scene as they have been for their parents or grandparents. But some shops may be used in different ways. One indication is the growth of brand showrooms, such as the Apple and Sony stores. Their main role is to demonstrate a range of the company's products, with knowledgeable and enthusiastic staff on hand who are under no pressure to clinch a sale. Where people actually buy the product in the end becomes of secondary importance.

Having achieved power, consumers will not give it up. “There's clearly no turning back,” says Dell's Mr George. “The market will get more fragmented, customers' needs will get more diverse, and sophistication and empowerment will continue to grow.” As marketeers adjust to this new environment, advertising may well have to become more permission-based. That could involve economic incentives, such as the bargain that has long paid for lots of free TV: in return for sitting through the ads, here are the programmes you want.

But the bargain with today's consumers will have to become more refined. Gmail, a free online e-mail service offered by Google, could provide a clue to the way things are going. It has lots of features and offers 1,000 megabytes of storage space, much more than its rivals. In return, users agree to allow small text ads to be placed in their e-mails. The ads are selected to match the subject matter of the e-mail, with Google's ad-placement software picking up on certain key words. An e-mail exchange about digital cameras, for instance, is likely to attract links to companies selling them. Despite some initial concerns about privacy, most Gmail users are savvy enough to know that it is the computer software, not a real person, which is reading their e-mails. Lots of people have volunteered for the service's experimental stage, so Google is expected to make it more widely available soon.

As media become increasingly interactive, consumers will be able to exercise ever more choice over which of them they consume, how, when and where. Getting advertising will be optional—so it had better be good, useful and relevant to their lives. But even mass-media advertising will continue to

have a role, at least for the foreseeable future. For as Ogilvy & Mather's Mrs Lazarus points out, even those ever-connected young people do not want to be interactive all of the time. Sometimes they just want to go home, sink into the sofa, switch on the television and watch the Super Bowl—ads and all. Consumer power also means you can decide to take an evening off.

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Indian business

Today India, tomorrow the world

Mar 31st 2005 | GENEVA, MUMBAI AND PUNE
From The Economist print edition

Tata, India's leading private business empire, is driving hard in pursuit of rapid international growth

AFP

A GLEAMING silver prototype of a sports utility/saloon crossover vehicle was one of the stars of the recent Geneva motor show. What made it particularly noteworthy was that, in two years, it will roll off the production line not in Wolfsburg, Stuttgart, Detroit or Tokyo, but Pune—two hours by road from Mumbai, the commercial capital of India.

Five years ago it would have been inconceivable for a vehicle from India to turn heads at such an international gathering. Back then, the gamble by India's Tata group to enter the car business was widely predicted to drag down its flagship Telco business (now called Tata Motors). Telco grew by making lorries and engineering components. Its first indigenous car, the little Indica, was hit by quality problems and won less than half of its expected share of India's growing domestic market. Telco made huge losses in 1998-99. But Ratan Tata, chairman of the 80-firm conglomerate that is India's largest private enterprise (its turnover just pips that of the Reliance group), stuck to his guns. Cars are a big part of his ambitious vision for Tata. Just as his ancestors were pioneers of India's industrialisation (building its first steel mills and hydro-power stations), he wants to show that Indian manufacturing can compete on a world stage.

Mr Tata is the nephew of J.R.D. Tata, a leading industrialist in the days of British rule and the years of socialist autarky thereafter. He succeeded his uncle in 1991 as chairman of the group's holding company, just as India started to liberalise its economy. Tata was a sprawling empire, in which 300 firms, many listed, went their own ways. The stakes in them held by Tata family trusts often had been diluted to below 5%. Mr Tata took the group by the scruff of the neck, raising Tata's stakes enough to gain influence. He quit crowded markets, such as textiles and cement, and licked other firms into shape. But his bold move into cars was a turning point, as the group became aggressively expansionist.

In 2000 Tata spent $435m to buy Tetley Tea, a British business with a global brand—the first big foreign acquisition by an Indian company. The idea was to move downstream from just selling leaves from Tata's tea plantations. But other international acquisitions in trucks, telecoms and steel offer Tata an even bigger opportunity to make its mark outside India, as does its flourishing IT business. Already 22% of group sales are outside India. Four group companies are run by Americans and a Briton, Alan Rosling (formerly with Jardine Matheson, a firm of Hong Kong traders) sits on the holding company's board as international director.

None of this could have come about if the move into cars had proved a disaster. Telco's losses were caused partly by a severe cyclical downturn in the truck market. Tata's response was to cut jobs by 40% and halve the number of suppliers to 600. This was not easy to do in India, with its rigid labour laws. After a three-year struggle, the Indica and its bigger version, the Indigo, began to overcome early problems and now account for around one-quarter of the markets for small and medium-sized vehicles. Mr Tata recalls that in 1995, when he decided to enter the passenger-car market, he could have taken the usual route with a joint-venture. Both Toyota and Volkswagen had been talking to him. India's (currently) leading carmaker is Maruti, which started life as a joint-venture between the government and Japan's Suzuki, which still owns 54%. Indeed, in the old protectionist days, Tata made an easy living as the local partner for the likes of Mercedes-Benz, IBM, CBS and Honeywell. Mr Tata felt it was time to grow up.

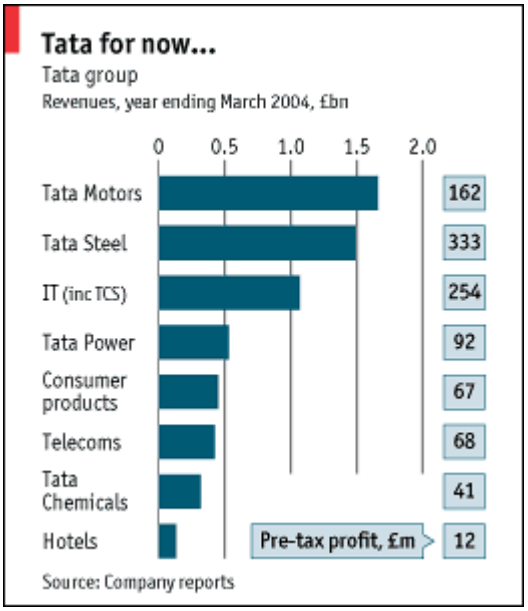
Driving ahead

He pursued his dream of making Tata Motors the flagship of his $14 billion empire. Today it is the biggest group business by sales and, only seven years after producing its first car, makes a net pre-tax profit margin of around 10%—putting it in select company with the leading Japanese and South Korean volume car makers and ahead of its main domestic rival. Now it is moving into South Africa, making cars for export to Europe, and is selling some cars in Turkey and Britain (badged as MG Rovers).

Today the group's firms are in eight sectors. The average Tata holding in each firm is 25%, but in flagship businesses, such as Tata Motors, Tata Steel and Tata Consulting Services (TCS), it is 65% or more. Last summer Tata finally floated 14% of the shares of TCS, an IT business started by Tata engineers in 1968, long before such Bangalore outsourcing merchants as Infosys and Wipro Technologies had been heard of. The float valued the firm at $11 billion. It netted Tata over $1 billion, propelling the group back to the peak of Indian business.

It is not just TCS's juicy 24% profit margins that are attractive to the group. The success of the first tranche of shares floated has encouraged Mr Tata to contemplate further TCS sell-offs to finance other new ventures. A first step, he says, will be to get TCS shares listed in America. The first use of the money last summer was to pay down debt in Tata Sons, the holding company for the group. But further sales could be used to finance the development of Tata's telecom businesses, VSNL (formerly the state-owned monopoly for international telecom) and Tata Tele Services.

鏀叩榕 owns the largest stake (46%) in VSNL, with the government retaining 26%. Deregulation soon after Tata bought its stake in 2002 left VSNL grappling with a collapse in rates and a host of new competitors. Yet the value of its $530m investment has soared, even as profits slumped, as the market focused on its potential. Prospects have also triumphed over actuality in mobile telephones, where Tata is still recovering from a slow start. Like the move into cars, this diversification has teething troubles: the difference is, says one Tata director wryly, that the Indica was a $400m gamble, but this is over ten times bigger.



Thanks to money from floating TCS, Tata is to invest $4 billion in integrating the services of VSNL and TCS to provide global clients not just with software solutions (for instance, it produces cutting-edge software that writes software) but to deliver them globally via secure networks. It can do this because last November VSNL bought the old AT&T undersea fibre-optic cable network from Tyco, for just $130m, getting its hands on an asset that cost its original owner $3 billion to develop.

Acquisitions are also helping Tata Steel to grow beyond India. Last August Tata spent some $300m buying Singapore's NatSteel. Tata Steel's plant in north-east India is already one of the most

productive in the world, but its reach will be extended by shipping iron and steel billets to NatSteel's plants for rolling and finishing into rods, bars and sheets for East Asia's burgeoning builders and manufacturers.

Mr Tata has considered floating shares in Tata Sons, but its complex ownership structure (the two biggest blocks of shares are owned by Tata charities controlled by him, and the third by an old family friend) militates against it. Listed operating businesses also own stakes in the holding company. Fortunately, TCS is proving to be an ample alternative source of cash.

Mr Tata will retire in just under three years, when he reaches 70. Before he goes he wants to launch a revolutionary “1 lakh car”—one that sells for 100,000 rupees ($2,000). Tata would make the body panels and sell kits to small firms that would create jobs assembling the cars in rural workshops. The idea is to have a “people's car” made by the people. “When I see four or five members of a family cling to one little scooter, I become determined to provide a low-cost family car between the scooter and normal models,” he says, calling it his parting shot. He may continue as an adviser on the project after he retires.

But there will be no awkward succession issue after he goes. There is only one Tata family member, Noel, running a small part of the group. To become a serious candidate he would first have to prove himself in a bigger job. Meanwhile, he is not thought to be among the succession candidates Mr Tata is considering. That is probably just as well. Family succession battles have engulfed Tata's rival, the Reliance group, since the death of its founder.

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General Motors

China surprise

Mar 31st 2005 | HONG KONG
From The Economist print edition

The abrupt departure of its China boss raises doubts over a rare GM success story

THE last thing General Motors (GM) needs is another puncture. The world's largest carmaker is already trundling along on several flat tyres: it is still in the red in Europe, losing market share in America and, last month, shocked investors by giving warning of a first-quarter loss. The credit-rating agencies are preparing to downgrade its vast pile of outstanding debt to junk status—the level at which it is already trading in the market.

Now GM is losing the executive who built the group's highly profitable bridgehead in China, until recently the world's fastest-growing large car market. The resignation of Phil Murtaugh, chairman and chief executive of the group's China operations (which include Hong Kong and Taiwan), on March 30th, was put down to personal reasons. “Nobody at GM is pushing Phil out of the door,” said a local spokesman, denying any connection to the sharp slowdown in sales. Insiders point instead to the recent appointment of Troy Clarke, a Detroit veteran, as Asia-Pacific president. He moved GM's regional headquarters from Singapore to Shanghai, to the annoyance of the independent Mr Murtaugh.

GM moved swiftly to announce a new China boss, Kevin Wale, an Australian running its British operations, who previously worked in Asia. He faces a hard task.China has been a big source of profit for beleaguered GM. It is estimated to account for up to 80% of the group's Asia-Pacific operations, which made $729m in 2004—one-fifth of the firm's $3.6 billion global net profit. Sales in China, driven by the upmarket Buick saloon and cheaper Excelle sedan, rose by 27% to nearly 500,000 cars. With a share of 9.3%, GM is catching Volkswagen, the long-time market leader.

After several years of rapid growth (for instance, 75% in 2003), however, the Chinese car market is slowing abruptly, largely as a result of a government crackdown on cheap car loans as part of wider efforts to stop economic overheating. In the fourth quarter of last year, GM's Asia-Pacific profits dropped by one-third compared with a year earlier, to $117m, because of China. In January and February, Shanghai GM, the firm's main joint-venture, saw passenger-car sales fall by more than 50% compared with the first two months of 2004 (the total market fell by around 10%). Slumping sales and growing competition from foreign and local companies, such as Chery and Geely, are squeezing prices and eating into profit margins. The profits of China's car- and car-parts makers fell by 62% in the first two months of this year, says the National Bureau of Statistics. GM expects a recovery in the second half of the year—Mr Clarke says that Chinese sales are on track for “double-digit growth once again this year”.

But given the huge increase in new capacity, even a revival in demand may not translate into a recovery in profits. International (and increasingly, domestic) carmakers plan to invest over $10 billion to double production to 7m units by the end of 2007, with further expansion planned thereafter. During such turbulent times, Mr Murtaugh's good relationships with the Chinese

government and the American group's local partners—he set up the original Shanghai GM joint-venture in 1996—as well as his experience, are likely to be sorely missed.

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Hewlett-Packard

Hurd's instinct

Mar 31st 2005 | SAN FRANCISCO
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A new boss, with a brief to run HP better and to be duller

WITH reasonable speed for such matters—less than two months after firing its chief executive, Carly Fiorina—the board of Hewlett-Packard (HP), the world's second-largest computer maker after Dell, has found a new boss. His name, HP announced on March 29th, is Mark Hurd, and his most noticeable characteristic is that he is very unlike his predecessor.

Ms Fiorina was photogenic, mixed with celebrities and behaved like one, and seemed to do bold things—above all, her controversial merger with Compaq, another computer maker—because they were bold, although bold did not always mean smart. All this won her magazine covers but went down badly within HP's boffinish culture. It also turned off shareholders, who felt that they were funding Ms Fiorina's fantasies of empire. Under Ms Fiorina, HP appeared to lose out to both Dell, a leaner, meaner hardware maker, and IBM, a more sophisticated seller of computer services, as well as to consumer-electronics firms with more sex appeal.

To HP's board, Mr Hurd must have looked perfect in contrast. Only two years younger than Ms Fiorina, at 48, he has spent his career very differently. For 25 years he grunted his way through various departments at NCR, another (albeit much smaller) hardware maker with a sprawling portfolio of businesses, becoming its chief executive two years ago. He distinguished himself not by doing headline-grabbing deals, but by cutting costs and tightening marketing—all without unduly upsetting his colleagues. Thus he engineered what has been called “a turn-around” at NCR that, if not in the same league as, say, IBM's in the 1990s, is nonetheless impressive.

That is what HP's board, in firing Ms Fiorina, implied it was looking for. In particular, said Patricia Dunn, HP's chairman, the board did not intend to change HP's strategy by splitting the firm's profitable printer business from its struggling computer business, as several analysts and shareholders had been demanding. Rather, she said, the board wanted somebody who would simply execute better. According to Martin Reynolds, an analyst at Gartner, a technology research firm, Mr Hurd is that kind of “operational CEO”—someone who will not be “jetting around, talking about the world economy” instead of tending to the nuts and bolts.

Barring a change in strategy, however, that will be difficult. IBM does well in part because most of its revenues come from services, and Dell because it knows how to take the cost out of making hardware. HP, with 70% of its revenues from hardware, is more like Dell but stuck with costlier distribution channels and supply logistics. And HP has only one undisputed jewel: the business of selling replacement ink cartridges for its printers at profit margins of about 80%. (By volume, the ink for an HP colour printer is more expensive than vintage 1985 Dom Perignon. No wonder HP this week sued two other companies that sell refilled ink cartridges.)

If the board says no to a break-up, what can Mr Hurd do? One option, argues Mark Anderson, the president of Strategic News Service, a technology newsletter, is for him to persuade his new bosses "to decide unanimously that HP's future is in imaging." That would include not only printing, but everything to do with capturing, transporting, storing and displaying pictures, for consumers and for companies. This has the advantage that it would give HP some focus (get rid of the calculators, say, and reinvest in digital projectors). It has the disadvantage that Eastman Kodak already thinks it has taken that prize. But at least Mr Hurd would not constantly have to answer questions, as Ms Fiorina hated doing, about Dell leaving HP in the dust.

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Peer-to-peer

Face the music

Mar 31st 2005
From The Economist print edition

The Supreme Court must balance protecting content with innovation

WHEN the automated player-piano was invented in the mid-19th century, companies that sold sheet music groused. When commercial radio took off, musicians bellyached that it would destroy them. So too, with the introduction of gramophones and tape recorders, did established businesses of the day try to block the inventions to protect their commercial interests.

In each case, public interest defeated the private, and the technologies flourished (often, ironically, to the benefit of the party that originally objected). For instance, movie studios tried to outlaw Sony's Betamax because it could be used to infringe film copyright. In 1984, America's Supreme Court ruled the devices legal because they were “capable of substantial non-infringing uses.” Today, the home-video market is almost three times larger than Hollywood box-office receipts.

On March 29th, the Supreme Court heard oral arguments regarding peer-to-peer (P2P) file-sharing software. This lets internet users obtain files of, say, music or video quickly and inexpensively by cleverly sharing the content among many users. In over 90% of the cases, the files downloaded infringe copyrights. Some 28 entertainment companies have joined together against two P2P software makers, StreamCast Networks and Grokster, claiming that they are accountable for “secondary liability” of copyright infringement because they knowingly turn a blind eye to the illegal activities of users.

The entertainment industry is arguing that business models predicated on the theft of intellectual property should be declared illegal. Technology firms counter that to restrict companies according to how their technology is used by customers would hand media firms a veto power over technical innovation any time it seems to threaten their interests.

The Supreme Court will have to reexamine its 1984 Betamax decision in light of the internet and digital devices from the PC to the iPod and digital video recorders. One lower court has found that P2P software makers are not liable, because the product is capable of legal uses. But another court interpreted the 1984 ruling differently, finding against P2P by highlighting the ruling's indication that there should be “commercially significant” non-infringing uses for “legitimate” purposes.

Recording companies complain that the decline in music sales in the past few years (save for a small uptick in 2004) is due largely to illegal file-sharing. Millions of people use P2P systems, downloading 2.6 billion songs a month and 400,000 films a day, accounting for over half of all internet traffic by some measures. Faced with the inability to get courts to shut down P2P networks, the industry has sued thousands of alleged pirates worldwide, and backed legislation that would ban technologies that “induce” infringement.

A ruling against the P2P systems would slow, but would probably be too narrowly specific to end, the growth of firms exploiting the technology. A win for the media firms would help them negotiate agreements with the cottage industry of firms aiming to get into online music distribution. The entertainment industry would probably refocus its legal battles on targeting internet service providers.

But the cost of this could be huge. It could dramatically set back the adoption of the many beneficial uses of P2P, from legitimate content distribution—such as individuals sharing their family photos or their home-recorded music online—to grid-computing. Theft of intellectual property is wrong, of course. But technologies exist that can prevent it—and even let media firms harness the internet to make money, as in the previous battles between content owners and new technologies. The Supreme Court should retain the Betamax principle. It is not the role of law to block innovation.

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Mobile telephony in Africa

Mo's show

Mar 31st 2005
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A big deal for Africa

AFTER months of rumours, one of Africa's bigger mobile phone companies was at last sold this week. MTC, a telecoms company based in Kuwait, agreed to pay nearly $3.4 billion in cash for Amsterdam-based Celtel International, which has 5m customers spread across 13 African countries.

This has the potential to be a smart move. Last year Celtel doubled its profits, to $147m. MTC has a strong appetite for risk—it already has operations in Iraq—and wants new, fast-growing markets. Right now that means Africa, where low penetration rates and economic recovery promise expansion in phone-usage for some time yet.

Mo Ibrahim, Celtel's founder, must be especially pleased. He will make $700m by selling his one-fifth stake, and will remain in charge of the firm's African operations. His big challenge will be to break into one of the continent's large markets. Celtel, which for now will retain its brand within MTC, is scattered mostly across smaller and poorer ones.

Africa's richest country, South Africa, seems beyond reach, dominated by two big rivals, MTN and Vodacom, each with headquarters in Johannesburg. Oil-rich and populous Nigeria is extremely profitable for MTN, but serious rivals have failed to break in, put off by corruption and arduous legal procedures. Last year Vodacom aborted a venture in Nigeria, and is instead expanding in central Africa, notably in the enormous Democratic Republic of Congo.

That leaves east Africa as the least crowded patch for Celtel, which already has networks in Kenya, Tanzania, Uganda and, usefully, in Sudan, which could prove to be most lucrative. The atrocities in Darfur continue, but a long-running war in the south is over and oil revenues flow merrily. Donors and investors plan big rebuilding projects, which will mean rapid growth for telecoms too. And Celtel's staff have useful experience from other countries newly out of war: its operations in Sierra Leone, though small, turned an almost instant profit, thanks to peacekeepers, small businessmen and the information-starved who were eager to pay for phones that actually work.

Mr Ibrahim, who is Anglo-Sudanese and calls himself a “Nubian”, is probably crucial to any success. He is said to have close, useful political connections in east Africa, notably in Sudan, and—at least formerly—in Kenya. They should help, though politics and business do not always mix. Publicly-listed Vodacom beat last year's hasty retreat from Nigeria after unproven suggestions that it was too cosy with local politicians there.

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Japanese takeovers

White knight in Soft armour

Mar 31st 2005 | TOKYO
From The Economist print edition

Softbank earns a role in a gripping business drama

AP

White knight?

ONE hour after last week's big victory in the Tokyo high court, Takafumi Horie sat in his office alternately answering *The Economist*'s questions, checking his mobile phone to see how news outlets were portraying his victory and rubbing his sore head to relieve the pain. The 32-year-old Livedoor boss has been busy of late, and the stress of launching a court battle to control Nippon Broadcasting System (NBS) and fighting a high-profile public-relations war over his aims and tactics, whilst running his fast-growing internet firm, was showing. But Mr Horie's real headache began the next day. On March 24th, as if to reassure Japan's public that the soap-opera-like takeover battle will stay interesting, Softbank Investment, an affiliate of the internet empire run by Masayoshi Son, entered the fray.

Softbank Investment says that it wants to team up with NBS and Fuji TV, the radio broadcaster's parent, to make venture-capital investments in broadband-related media content. To kickstart talks about this, it arranged to “borrow”, for up to five years, a 13.9% stake that NBS holds in Fuji TV.

Livedoor started this takeover drama by quickly buying up a huge stake in NBS, which tried to thwart him by issuing equity warrants and diluting his shares. By winning last week's court case, Mr Horie has affirmed Livedoor's control of NBS (he now owns a majority of the shares). This will let him replace NBS's board of directors at June's shareholders' meeting. Yet many onlookers reckon that Mr Horie's real aim was to gain control of Fuji TV, for NBS holds a 22.5% stake in its parent. Softbank Investment has now snatched most of that stake from Mr Horie's clutches.

Yoshitaka Kitao, who runs Softbank Investment, insists that his venture-capital firm is acting independently of any orders from Mr Son (pictured), even though Mr Son's Softbank holds a 39% stake in Softbank Investment. Softbank Investment says that Mr Kitao did not consult with Mr Son in any way before striking the deal with NBS's doomed board of directors. If so, this was an odd way for Mr Kitao to proceed, given the controversy that Livedoor's takeover bid had already generated and the awkward nature of the transaction.

Even with Mr Son seemingly remaining in the wings, Japan's media have delighted in the prospect of a battle between the 47-year-old Softbank boss—once famed for his aggressive deal-making—and Mr Horie, the new kid on the block. Having recently been treated to a debate about “poison pills”

and other defences, the Japanese public is now learning of the pros and cons of “white knights” who ride in to rescue firms from unwanted takeover bids. Mr Kitao insists that Softbank Investment is no white knight, and is simply pursuing a sound venture-capital strategy to push content through broadband internet pipelines and other channels. This is not a new idea. Mr Horie has been championing something similar for two months. Whatever Mr Kitao's—or Mr Son's—true intentions, Mr Horie (who has hinted that he will meet Mr Kitao in June) will no doubt be rubbing his temples for a while yet.

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Enel

Wind in its sails

Mar 31st 2005 | MILAN
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Italy's electricity giant powers ahead

WHEN Paolo Scaroni became boss of Enel, Europe's biggest listed utility, in May 2002, the former state monopoly was in a mess: too big, too inefficient and spread too thinly across activities ranging from waste to telecoms. Mr Scaroni vowed to refocus on electricity and gas, slash costs and make Enel a streamlined global player. After three years, as Enel's board is considering whether to appoint him next month for a new three-year term, he can reasonably claim to have kept his promise. Enel's shares have risen accordingly.

Mr Scaroni has sold Enel's real-estate arm, several power divisions, its waste business and its water companies. Half of Terna, its power-grid operator, was floated on the stockmarket last June. This week it placed another 14%, and Cassa Depositi e Prestiti (CDP), a state-controlled lender, is to take another 30%. Now Mr Scaroni is considering offers for Enel's remaining large non-core asset: Wind, Italy's third-biggest mobile-phone operator. Two private-equity consortiums have each offered around €12 billion ($15 billion)—which would make Wind the biggest private-equity investment since 1989, topping this week's purchase of SunGard (see article). "I will go for one of the offers if they create value for shareholders," says Mr Scaroni. Otherwise, he says, he will stick to his plan to float Wind—a firm with debts of over €7 billion that has not made a profit since its creation in 1997 by Enel, France Télécom and Deutsche Telekom—next year. Expect him to take the money now.

Three years ago 30 managers reported directly to Mr Scaroni, each heading a separate firm with its own overhead and capital expenditure. Today Enel has two main divisions, one for gas and electricity, the other for Terna and Wind. Its power plants too have become a bit more efficient: Mr Scaroni has reduced their heavy dependence on high-cost oil by converting them to cheaper fuels such as coal. His goal is for Enel to use only cheaper fuels by 2009.

This week Enel reported some of the results: 2004 profits up by 36% to €3.4 billion. Now for the hard part. Enel's workforce has been halved in the past ten years, to around 52,000 employees in Italy. Analysts say it must shed a further 10,000 jobs to achieve international standards of efficiency. Enel's ratio of 800 customers per employee compares poorly to, say, Spain's utility average of 2,000, says Chris Rowland of Dresdner Kleinwort Wasserstein, an investment bank. But will such cuts be politically acceptable? Italy's government owns a powerful 31% stake in Enel and controls a further 10% through CDP. Although the government said last week that it will reduce its direct stake to 20% by the end of September, it will retain its de facto control of the company.

Electricity prices in Italy, which are set by Enel, the market leader, remain as much as 40% higher than in the rest of Europe. New entrants will lower prices, predicts Giorgio Medda, an analyst at CSFB. The government wants to encourage foreign participation in the market. Already Italy is one of Europe's biggest buyers of electricity from abroad, with over 15% of its electricity imported, but

foreign investment in Italy is currently small, because local governments have made it tough for foreigners to set up shop. Even domestic rivals—notably second-placed Edison (currently for sale) and Italy's municipal companies—can produce electricity at a lower marginal cost than Enel, thanks to their more efficient gas turbines, says Mr Medda.

As for being a global power, Mr Scaroni has not spelt out his strategy. Last year he bought Slovenske Elektrarne, Slovakia's biggest power company, and there may be more deals to come in eastern Europe. Mr Scaroni has also been fighting for months with Pierre Gadonneix, boss of mighty Electricité de France, over access to the French market. At home, antitrust rules mean that Enel cannot buy Edison. But Mr Scaroni plans to double Enel's 10% share of the domestic gas market by 2009.

These challenges have encouraged talk that Mr Scaroni—who cut his chief-executive's teeth at Pilkington, a British glassmaker—may fancy a move, perhaps to run Eni, Italy's big oil firm. Mr Scaroni is adamant that he has not been lobbying for that job—which is also (potentially) up for grabs in May—and that he is excited about leading the next phase of Enel's recovery. The chief executive posts at Eni and Enel are both in the hands, ultimately, of the government. Would it have announced its plan to sell another chunk of Enel's shares later this year if it thought a change at the top—which would surely upset investors—was imminent?

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Face value

The devils' advocate

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Thomas Donohue's defence of America's business class is yielding results

Landov

WHO would dare to defend the rights of American businessmen these days? If the newspaper headlines are a guide, their appetite for fleecing customers, defrauding shareholders and socking away ill-gotten fortunes in offshore tax havens is as wickedly undiminished as ever. Hence the unusual professional challenges facing Thomas Donohue. As boss of the United States Chamber of Commerce, Mr Donohue is America's big-business defender-in-chief—fighting the big guy's corner as the little guy struggles in vain to secure a modicum of justice. Not surprisingly, the work can be demanding. This week, as prosecutors circled Maurice "Hank" Greenberg, the hitherto celebrated boss of AIG, an insurance giant (see article), Mr Donohue was kicking off a spring campaign to fight what he says are the "overly burdensome" costs of the fraud-fighting Sarbanes-Oxley act.

The champions of corporate reform in America may complain that businessmen refuse to submit meekly to tougher rules and stronger enforcement. But even they privately concede that Mr Donohue has proved himself a handy man in a tough fight. Punchy and unapologetic, Mr Donohue has lobbied tirelessly for the 3m firms that his organisation represents, sometimes waging campaigns for years. The passage in February of business-friendly reforms to America's burdensome tort system was the culmination of six years of sustained effort by the Chamber to get the legal rules changed in its members' favour.

Mr Donohue's team of lobbyists (which has tripled in size under his eight-year reign) also deserve some credit (or blame) for helping to kill (it seems) an attempt by the Securities and Exchange Commission (SEC) to open up the nomination of candidates for boardroom elections, under limited circumstances, to shareholders. (At the moment, boards control all nominations.) Mr Donohue has sued the SEC over a new rule regulating mutual-fund boards. The Chamber has even penned a brief urging the Supreme Court to overturn the criminal conviction against Arthur Andersen, which put Enron's accounting firm out of business. That conviction, argued the Chamber, criminalised acts committed by people who clearly lacked criminal intent. (The Supreme Court is now considering the case.) To cap his campaign against the costs of the Sarbanes-Oxley act, Mr Donohue plans to "audit" the SEC, state attorneys-general and federal prosecutors at the Department of Justice for prosecutorial overreach.

Having previously spent 13 years as the boss of the American Trucking Associations, another powerful trade group, Mr Donohue is a heavyweight of political lobbying. But he attributes his

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Urban regeneration

Blooms on brownfields

Mar 31st 2005
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Rex

More private money is regenerating Europe's industrial wastelands

FOR decades, the town of Rho on the outskirts of Milan was best known for its oil refinery: 120 hectares of carbon crackers, pipes and storage tanks. The polluted plant closed in 1992. And on March 31st, after a clean-up and completion, on time and within a €750m ($970m) budget, Milan's new trade fair was inaugurated on the site. The city wants to be Europe's leading host for trade fairs. At the new project's centre is an eye-catching design by Massimiliano Fuksas. A spectacular, wavelike steel and glass canopy, 1,300 metres long and 32 metres wide, ripples between eight pavilions that provide 530,000 square metres of floor space.

Mr Fuksas's masterpiece is the latest of many regeneration projects that have improved Europe's face as governments, architects and developers have tackled some of industrialisation's ugly legacies. As schemes have multiplied, so have skills at tackling the difficulties that once blocked progress. And as skills have risen, so has financial performance, to the point where sophisticated investors are eyeing regeneration as a source of future returns.

In fact, Italy was relatively late to industrialise and has fewer eyesores, mainly in its northern cities, than countries where manufacturing and mining took off earlier. The scars left by derelict factories, empty warehouses and abandoned mines are spread wider and deeper in Britain, France and Germany. However, the messy remains of the first industrial revolution are not the only reason for the landscaping and cityscaping under way across Europe.

Competition from newly industrialising countries has caused local manufacturing to decline (as it has in America, which boasts around 450,000 brownfield sites, as old industrial sites are known), finishing off the useful life of some of the reconstruction that helped put Europe on to its feet after the second world war. The end of the cold war made many military bases redundant, and allowed schemes to tackle the blight that communism's industrial plans strewed around central and eastern Europe. After the Berlin wall fell in 1989, the large area of no-man's-land between the city's eastern and western sectors became Europe's biggest urban building site.

There is no Europe-wide monitoring of regeneration schemes—so far, they have been mainly local and regional initiatives. However, figures recently published for England, industrialisation's cradle, give a sense of the challenge. Research by English Partnerships, a national regeneration agency, reveals a countrywide total of 66,000 hectares (163,000 acres) of brownfield land. About one-quarter of that total, involving more than 2,000 sites, mainly in northern England, has been vacant or derelict since before 1993. Problems of environmental contamination, cost and planning difficulties have prevented the regeneration of those sites.

Across Europe urban regeneration has been driven by various combinations of political will and business nous. But it has depended heavily on public money and has often been threatened with throttling by red tape. Now there are signs of change. Experience has helped developers to tackle bureaucratic obstacles. And less public money is needed to back projects, as some of the world's most sophisticated investors are becoming more attracted to regeneration projects as a sound place to put their funds.

That shift is important because regeneration is costly. A little over £9 billion ($15 billion) was invested in London's Docklands between July 1981 when the London Docklands Development Corporation, a public-sector agency, was established to regenerate 2,150 hectares of the city's rundown docks and early 1998 when it ceased operation. Just under £1.9 billion of the total came from the public purse, about half of which was spent on transport infrastructure. Public money for roads and railways helped to unlock private investment. (Although Olympia & York, the developer of Canary Wharf at the heart of the Docklands project, went into administration in May 1992, that was caused by the group's over-reliance on debt.)

Kick-started by public money and tax breaks, development in Docklands is now driven by the private sector. On January 28th, Canary Wharf Group, the company that emerged when O&Y left administration in October 1993, signed an agreement for a £2 billion scheme to develop a neighbouring area owned by British Waterways, a corporation that reports to the environment ministry. Indeed, the whole Docklands region is now growing, and will receive a further boost if London were to win its bid for the 2012 Olympic Games. “Developers are willing to include many social amenities in plans even for fringe areas now,” says Emma Peters, development and renewal director for the impoverished borough of Tower Hamlets, in which much of Docklands sits.

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Private money is also evident in projects in Manchester, a heavily blighted city. Urban Splash, a prominent private developer, has bought and regenerated properties there, including Albert Mill, a Victorian warehouse, and Waulk Mill, a protected 1840s building in the city's Ancoats district. Manchester's docks in the Quays in the neighbouring city of Salford, abandoned in the early 1980s after containerisation and changing trade patterns caused a rapid decline, were an unlikely magnet for private money. Yet, 20 years after Salford's first development plan, there is now strong demand for expensive apartments at the Quays. “Only optimists could have imagined this,” observes Felicity Goodey, who chairs the Central Salford Urban Regeneration Company.

The interest of developers and investors in regeneration projects in Milan is arguably easier to understand. Milan enjoys a strong local economy combined with high land values. Further, the capital of Italy's richest region has never experienced the slumps that have hit English cities, or French ones such as Lille, where textile manufacturing and coal-mining went into sharp decline in the 1970s leaving empty factories and shocking levels of unemployment. Pirelli Real Estate encountered no difficulties in financing Italy's then biggest urban regeneration scheme at the Bicocca site of a tyre and cables factory owned by its parent in the north of Milan. Begun in 1986, the project transformed almost 100 hectares into a university, research laboratories, offices and residential accommodation.

Even in Milan, however, projects can be difficult to negotiate. A derelict 35-hectare site called Garibaldi-Repubblica was attractive to developers because of its proximity to the city centre. Two years ago, after complex negotiations with private landowners, the Italian subsidiary of Hines, a Houston-based property firm, acquired almost 90% of the building rights for the area. A design and fashion district and local-government offices are planned. Manfredi Catella, managing director of Hines Italia, expects that work will start next year and be completed within four years. The firm will invest around €550m to build 110,000 square metres of mixed residential, retail and office space.

Not that public money has disappeared altogether. But these days it is both less evident and more carefully targeted. “Lottery money for cultural landmarks has been central to regeneration schemes in England,” notes Mr Fuksas. With its Lowry project, Salford is one example. Helped by £64m from Britain's National Lottery, the distinctive Lowry Building, housing two theatres and an art gallery, opened on Salford Quays five years ago. In the borough of Trafford across the Manchester Ship Canal from the Lowry, the Imperial War Museum North, an iconic building designed by Daniel Libeskind, opened in 2002. “It adds to the Lowry's ‘wow’ factor,” remarks Ms Goodey, a driving force behind the project. This cultural package helps explain why developers have been willing to build luxury apartments at Salford Quays. About £570m has been invested there since 1985, of which £425m has come from private sources.

Success on the waterfront

In Gateshead, on the southern side of the Tyne river and linked to Newcastle by an award-winning pedestrian bridge, flagship projects include the Baltic Flour Mills, now an art gallery, and the Sage Gateshead, a stunning complex of concert facilities. “Private finance followed after the council cleaned up Newcastle's quays in the 1990s,” says Steve Dunlop, the city's director of regeneration.

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Public and private money is increasingly mingling. Priority Sites is one of England's most active developers, and has attracted £15m in loan stock and equity from English Partnerships, and a further £12m from Royal Bank of Scotland (RBS). The group has developed about 200,000 square metres of industrial and commercial space in regeneration areas since it was set up in 1997. Last year it made £5m profit on turnover of £28m.

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The myth of low returns

Small wonder that other investors have been growing interested. The Hines European Development Fund (HEDF) has attracted money from some of the world's biggest institutional investment funds, including the California Public Employees Retirement System and General Motors' pension fund. HEDF is providing all the equity finance needed in the initial phase of the Garibaldi-Repubblica project in Milan. “Typically the relationship between equity and debt for such operations is around 30 to 70,” says Mr Catella. He expects an internal rate of return of between 15% and 20% over the project's lifetime.

HEDF is also investing in the regeneration of a 63-hectare factory site at Billancourt in Paris where Renault cars were once made; over the next nine years, in partnership with two local developers, Hines will build more than 800,000 square metres of mixed residential, office and commercial space there. An estimated €152m of private money is funding a museum of modern art on the site, where the last cars rolled off production lines in 1989.

Investors do not have it all their own way. Bureaucracy burdens all development projects, but perhaps regeneration projects more than most. “The lead-in to regeneration schemes tends to be long and complex,” says Ms Turnbull. Planning for an extension of Manchester's tram system to Central Park, a 160-hectare scheme in east Manchester that will be Britain's first large-scale urban business park, was certainly complex. But a bigger headache has been lack of funding which has prevented the tram extension in parallel with construction work at the site. “Having transport infrastructure in place is fundamental,” complains Eamonn Boylan, deputy chief executive of Manchester city council. Commitment by local politicians to regeneration in their cities may be insufficient by itself to push things forward.

Lille, once famous for textile manufacturing, provides an example of what can be achieved by a national heavyweight. In 1988, Pierre Mauroy, the city's mayor and a powerful figure in France's Socialist Party, engineered the routing of a new network of domestic and international high-speed train services through Lille and used that coup to turn the city into a logistics and service hub. Office towers, housing and a conference and exhibition centre transformed a rundown industrial site.

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Red tape does have its uses. It certainly focuses minds, identifying the different actors and their relationships, establishing frameworks for co-ordination, setting priorities and aims, and establishing programmes for meeting those objectives. Although central governments tend to stand back, local authorities have become much more sophisticated and generally insist that a regeneration scheme forms part of broader development plans. Greater Manchester, for example, covers ten council districts and has its own economic development plan. In the city of Manchester itself, the council and the City Centre Management Company have a strategic plan for the city's heart.

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Rules and a degree of co-ordination among authorities are inevitable because regeneration often involves heavily polluted sites. Remedial work at Rho posed all the usual challenges that go with dismantling an oil refinery and ridding the site of hydrocarbon and metal residuals. Most of the work, the cost of which is thought to have been around €100m, involved soil-vapour extraction, venting and spurging, techniques that removed harmful gases and injected air to oxygenate the soil and underground water sources.

Few regeneration projects in England escape the problem of soil remediation. Thousands of sites remain from the two centuries that separated the industrial revolution from de-industrialisation at the end of the 20th century: abandoned coalmines and steelmills, empty textiles factories and town gas works. Docks, canals and rivers present their own challenges. “Only the water was treated. The bottom was stabilised. We did not dare stir up a century of sludge when we cleaned up Salford Quays,” says Ms Goodey.

Measures of success

As private finance moves in, are financial returns the only measure of success for regeneration projects? The creation of jobs in areas afflicted by unemployment is certainly a complementary measure. London's Docklands are a beacon in this respect. By the end of last year, 13 years after Canary Wharf's first tenants moved in, its working population had risen from none to 64,000. By 2002, 13 years after the first offices opened, Salford Quays had accommodated 10,000 permanent jobs. Re-population provides a yardstick for areas whose decline had caused people to move away. After falling to around 200 diehards at the start of the 1980s, the resident population of central Manchester has climbed to over 20,000 and is continuing to grow.

The number of visitors attracted to a city is another important aim when regeneration schemes have financed cultural showpieces. In 2001, its first full year, the Lowry drew more than 1m visitors. The Guggenheim Museum in Bilbao has attracted millions of people in the eight years since it opened. Within two years, extra tax revenues had already covered the cost of bringing the museum to Bilbao.

Regeneration is a never-ending challenge: even relatively recent blight will need to be fixed in cities from Paris to Marseille and Naples to Palermo. Planners, politicians and developers can already point to numerous successes. They will have plenty more to do in future.

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Wall Street

Knocked off their pedestals

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Too big to fail, or too big to work?

IT MUST be the most tumultuous time for financial firms in America since the 1930s. Warren Buffett, the investment icon whose name is typically preceded by accolades, is being dragged off his pedestal by a dodgy insurance deal between General Re, a unit of his firm Berkshire Hathaway, and American International Group (AIG), the world's largest insurer. With regulators poring over his accounts, Maurice (Hank) Greenberg, who led AIG for four decades, has been forced to quit, first as chief executive and then as non-executive chairman of the firm he built into a financial giant. On March 30th, AIG announced that it would miss the deadline for filing with the Securities and Exchange Commission (SEC) because of an ongoing review of its accounts that had already revealed hidden losses of up to $1.7 billion. It has now lost its prized AAA credit rating.

Insurance is not the only financial business under siege. At Morgan Stanley, an investment bank, an unusually public knuckle-dusting pits the chief executive, Philip Purcell, against a group of former executives, now shareholders, who blame him for the hybrid firm's lacklustre showing over the past five years. Mr Purcell raised two supporters to the jobs of co-president, prompting the resignation of three high-ranking executives. The wrangle continues.

There is more. Quietly, power has also shifted at J.P.Morgan, another leading investment bank, from one boss to another. In December Fannie Mae, the housing-finance giant, pushed out its long-

serving chief executive, following the earlier forced departure of his counterpart at Fannie's sister company, Freddie Mac. At Citigroup, a global bank, three senior executives were shown the door in October 2004. And last June, CSFB, an investment bank, disposed of its boss.

Though each case has its own drama, there seem to be two broad causes for these upheavals: incompetence and regulatory failure, with one often contributing to the other. Freddie, Fannie and AIG are all accused of using illicit accounting tricks to smooth profits and perhaps to boost executive pay inappropriately. Citigroup has put its foot into it with regulators on three continents. J.P. Morgan, Morgan Stanley, and CSFB have all had regulatory problems as well, but their main defect has been the inability to make sufficient profits with sufficient frequency. Those who rail against Wall Street's pitiless insistence on success in other firms should be pleased to know it is now taking an equally harsh view of its own performance.

What links all these companies is that their credibility has been damaged. There is doubt about their earnings, their products, the way they sell and whether they are correctly structured. All are large and complex organisations serving different sorts of clients. What in the past appeared to be a beneficial synergy of operations now looks like a series of unmanageable conflicts. Has the modern multi-faceted financial firm failed? Can it be fixed?

Morgan Stanley may offer an early test. Once a pure investment bank, it is now a financial conglomerate in which the original business is shackled to a lame brokerage outfit, a troubled mutual-fund unit and a credit-card division that is losing market share. The laggards are all part of what was once known as Dean Witter, a financial firm run by Mr Purcell and picked up by Morgan Stanley in 1997. The theory behind the merger was straightforward: Morgan Stanley was, in a sense, a manufacturer; Dean Witter a distributor. Each could benefit from the other. Every element of that relationship is now under attack.

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Much of Dean Witter's success came from using a large sales force to hawk proprietary mutual funds that had mediocre performance and particularly high fees, a business proposition that long ago lost its appeal. The initial optimism that Morgan Stanley's underwriting and investment ideas could find a ready market through Dean Witter's brokers soured in the aftermath of investigations, in which Morgan Stanley was heavily involved, revealing that the tie between underwriting and distribution had resulted in biased research at many Wall Street firms. And the Discover credit card's link with the rest of Morgan Stanley has not been helpful; it has shown none of the innovation shown by more narrowly focused credit-card companies such as MBNA and Capital One. The only business that has retained its franchise is Morgan Stanley itself. Some shareholders are now talking of breaking up Morgan Stanley and letting Mr Purcell fall through the cracks. Whether changes in the second tier of the firm's management will placate the mob is doubtful.

The problems at AIG are more complex, involving offshore deals, privately held companies and arcane accounting distinctions between what constitutes insurance and what constitutes a loan. Until this week, the magnitude of the investigation into AIG's doings by the SEC and Eliot Spitzer, New York's attorney-general, was evident only in the stream of high-level executives being shown the door. These included not only Mr Greenberg but most recently Michael Murphy, the firm's tax strategist, based in Bermuda. Mr Murphy is reputed to have written the insurance laws in that island, where many of AIG's most complicated dealings take place. He was dismissed, says AIG, because he failed to co-operate with the investigations.

No charges have yet been brought against the firm. Initially, the regulators' attention was centred on a “finite risk” reinsurance contract with General Re, a subsidiary of Mr Buffett's Berkshire Hathaway, that is thought to have boosted AIG's reserves artificially. It has since widened to include a number of other deals.

AIG itself has given some indication of what those may be. Stunningly, on March 30th, in announcing the postponement of its SEC filing, the firm not only termed aspects of the General Re deal “improper” but also provided a list of other transactions and relationships that may have to be “recharacterised”. The largest of these potential “recharacterisations” involves Union Excess, a

shadowy Barbados-based reinsurer with ties to Starr International. This Panamanian privately held firm owns 12% of AIG's shares and plays a large role in AIG executive compensation: about 700 employees are promised stocks upon retirement by Starr International. Some 80 current and former AIG executives are partners in a Bermuda-based firm, C.V. Starr & Co., an insurance broker that owns a further 2% of AIG and also earns commissions for placing the insurer's policies.

Mr Greenberg still heads both Starr International and C.V. Starr & Co., and thus is in control of the largest block of AIG's shares as well as a big chunk of pay for the people who now run the company. Details of the tie between the two Starrs and AIG, and of any problems arising from it, are still unknown; if they prove to be substantial, the entire upper echelon of AIG could soon be looking for new jobs. It would be hard to imagine a greater managerial disaster in the annals of American business.

Where this leaves Mr Buffett is hard to say. He is believed to have a date with the SEC on April 11th, a day before Mr Greenberg. He has put distance between himself and the deal with AIG, but questions remain. As *The Economist* went to press, it was unclear who would be sitting in which chairs next month, at Morgan Stanley, AIG—or even, improbable though it seems, Berkshire Hathaway.

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Private equity

Clubby capitalism

Mar 31st 2005
From The Economist print edition

Private-equity firms now hunt in packs

GONE are the days when buy-out firms fought each other with the ferocity of cornered cats to win a deal. In the past two years, private-equity firms—which manage funds that buy big controlling stakes in companies, sometimes thereby taking public firms private—have given up the solitary pursuit of their prey in favour of hunting in packs. This week saw the biggest "club deal" so far, as seven private-equity firms bought SunGard Data Systems, a financial technology business, for $11.3 billion.

This is the biggest buy-out since 1989, when—on its own—Kohlberg Kravis Roberts (KKR) bought RJR Nabisco for $25 billion. But most of the money used to buy Nabisco was debt; the $3.5 billion of equity invested in SunGard is the most ever.

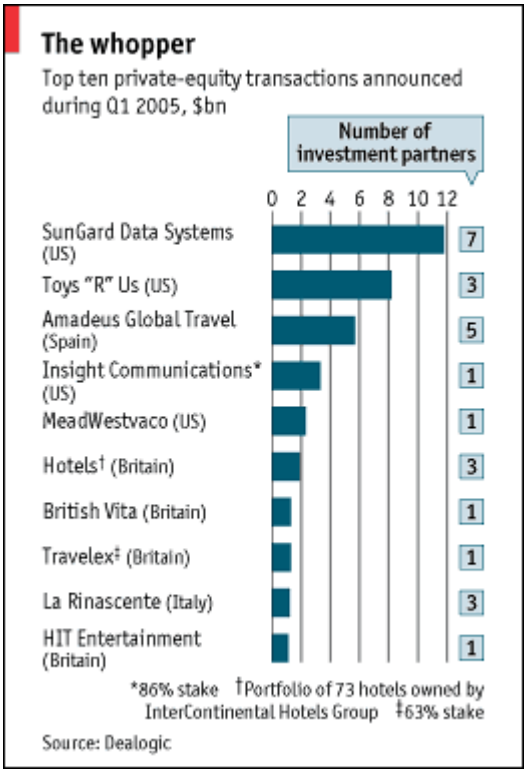
Today, KKR is a proud member of the SunGard club. Its other members are also as "blue chip" as a private-equity firm can be—Bain Capital, Blackstone, Goldman Sachs Capital, Texas Pacific, Providence Equity Partners and the organiser of the deal, Silver Lake Partners. Two other top private-equity firms are said to have pulled out: Thomas Lee and the Carlyle Group, which has just raised the biggest private-equity fund to date (though larger ones are on the way) of $7.85 billion for American deals plus $2.2 billion for European ones.

Although the size of private-equity funds is growing, the size of the companies that private-equity firms would like to gobble up is growing even faster. That is one reason—perhaps the main one—why club deals have become so popular. Most private-equity firms are limited in how much of a fund they can invest in any one deal—typically, about 10%. Thus a $5 billion fund could only invest, say, $500m in a single deal, which it might top up with another $1.5 billion of debt. So to buy a firm as big as SunGard, private-equity firms have little choice but to club together.

In this respect, buy-out firms are now copying their brethren in the venture-capital industry, says Colin Blaydon, at the Tuck Centre for Private Equity and Entrepreneurship. From the start, venture firms have formed clubs—they are far smaller than today's giant buy-out firms and the deals they invest in are riskier, so to diversify is crucial. Whether buy-out firms can make joint ownership work as well as venture firms do is uncertain. So far, most club deals have gone smoothly, and, notes Mr Blaydon, it is easy for the big egos of private equity to get along when all is well. The test will come when problems arise and a firm they own needs a new strategy; then "you may get serious disagreement and infighting among the club members".

Combining several talented private-equity firms could be a source of strength. Glenn Hutchins of Silver Lake calls the SunGard club “the private-equity equivalent of America's 1992 basketball Olympic dream team”, in which superstar egos were subsumed to forge an all-conquering unit. Highlighting another trend, the SunGard club joins generalist private-equity firms with deep pockets, such as KKR, with a specialist, Silver Lake—the first big fund to see that technology firms can become buy-out targets as their industry matures and cashflows are more predictable. Robert Lee, an analyst at Keefe, Bruyette & Woods, notes that “a lot of SunGard's business is based on three- or five-year contracts”, its revenue is fairly stable, and it has little debt. Perfect, then, for private equity.

Yet clubs may have more sinister attractions. There is now so much money available to private-equity firms, notes Josh Lerner of Harvard Business School, that competition has become intense, bidding up deal prices and driving down private-equity returns. The competition is weakest for the very biggest deals, however, and by forming clubs, says Mr Lerner, the big private-equity firms “have figured out how to dampen competition even further”.


The whopper
Top ten private-equity transactions announced during Q1 2005, $bn
Number of investment partners
0 2 4 6 8 10 12
SunGard Data Systems (US) 7
Toys "R" Us (US) 3
Amadeus Global Travel (Spain) 5
Insight Communications* (US) 1
MeadWestvaco (US) 1
Hotels† (Britain) 3
British Vita (Britain) 1
Travelex‡ (Britain) 1
La Rinascente (Italy) 3
HIT Entertainment (Britain) 1
*86% stake †Portfolio of 73 hotels owned by InterContinental Hotels Group ‡63% stake
Source: Dealogic

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Venture capital

Aftershock

Mar 31st 2005
From The Economist print edition

Money is moving back in, and out, of venture capitalists' coffers

AS IN physics, so in finance: shockwaves keep appearing long after an explosion. Five years after the crash in technology shares, its residual effects remain in the area of venture capital.

One sign is the huge amount of new money being committed to American venturefunds by investors who feel they missed, or hope to resurrect, the terrific returns of the late 1990s. Another aspect is that some of the money raised during the boom is only now being invested. The result is that start-ups are seeing a fast influx of financing, which is pushing up valuations. “There is a lot of recidivist, bubble-like behaviour,” says the managing partner of one fund with over $2 billion under management.

America's venture capitalists put $20.4 billion into deals in 2004. Although this sum was far below the amounts of the bubble years, it marks the first increase after three years of declining investment, according to VentureOne, a research firm. The biggest rise by far was in software, where investment grew from $4.1 billion in 2003 to $4.9 billion last year. Median valuations for American start-ups in 2004 were $13m—the highest since 2001, and a 30% increase compared with 2003.

Following the dotcom crash, venture-capital funds did not invest much because good deals were scarce. Last year's uptick in investment came from finally finding suitable uses for funds raised in 2000 and 2001, says Matt Garlick of VentureOne. Still, an “overhang” of uninvested money—a breathtaking $54 billion in 2004—is now looking for deals. And more is to come: last year American venture-capital funds doubled the amount of fresh capital they raised from investors, taking in $17.5 billion, against $8.8 billion in 2003.

Some venture-capital funds say they have turned away money from investors (known in the trade as limited partners) in order to keep fund sizes down to an amount that can be managed responsibly. But the allure of returns remains. “Limited partners are so desperate to deploy assets in this class that they are willing to fund new firms or old, bad firms—that is unprecedented in history,” says William Sahlman of Harvard Business School.

It is too early to say whether the flush environment heralds another tech investment bubble, but there are echoes of the dotcom boom. *Red Herring*, a once-weighty technology magazine, reappeared last autumn under new ownership. AlwaysOn Network, a website on technology and media, is publishing a quarterly magazine. Tech conferences are proliferating again, particularly in Europe. *Technology Review*, a magazine published by the Massachusetts Institute of Technology, has recently unveiled two monthly stock indices covering 150 firms, as a “gauge on the pulse of innovation”.

Meanwhile, many veteran venture capitalists are fretting, especially now that pension funds and endowments are racing to place money in venture capital (partly because they cannot get decent returns elsewhere). “I am concerned that the inflow of so many dollars will result in overvaluations and inflated prices that we can't recapture on exit,” says Peter Barris of New Enterprise Associates, a large venture fund. Apparently, you can have too much of a good thing.

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Economics and sport

Tricky pickings

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From The Economist print edition

Is the market for rookie American footballers grossly inefficient?

AP

First-choice Eli Manning

IN AMERICAN football, the first shall be last, and the last first. On April 23rd and 24th, the 32 teams in the National Football League (NFL) will take turns to recruit “rookie” players graduating from America's fiercely competitive college leagues. Quaintly enough, the team that finished last in the NFL, picks first, while the previous season's winners must wait until every other team has made a selection. Last year, for example, the lamentable San Diego Chargers had first refusal on Eli Manning, a promising quarterback who is the son of one of the game's legends and brother of another.

But is the right to pick first a “loser's curse” rather than a “treasure”? Yes, argue Cade Massey, of Duke University's Fuqua School of Business, and Richard Thaler, of the University of Chicago's Graduate School of Business, in a forthcoming paper. They reckon the first-picked rookie is fated to be overvalued and overpaid.

This being America, queuing soon gives way to trading. A well-organised market exists, in which a coach might exchange his right to pick fourth, say, in return for another team's tenth and 21st pick. (The Chargers, for example, eventually traded Mr Manning to the New York Giants.) Messrs Massey and Thaler show how coaches prize the chance to move up the queue: the right to pick first typically trades for about twice as much as the right to pick ten places later. The salaries paid to rookies closely reflect these distinctions of rank. A first-choice rookie, such as Mr Manning, can typically command wages about 60% higher than the rookie picked seventh, they report.

So is the first pick worth it? Messrs Massey and Thaler suggest not. They rate NFL players, rookies and veterans alike, according to some rough measures of performance: namely, how often they make the squad, the team and the “pro bowl” game that features the best players of the season. The two economists then put a dollar value on these accomplishments. They assume that the labour market for veteran players is efficient, paying players what they are worth to the team. Once they know how veterans' pay varies with team starts and pro bowl appearances, they can say what a rookie who falls off the team-sheet and watches the pro bowl from the stands is really worth on the field, in dollar terms.

NFL coaches are anxious to hire the best players they can without breaching the salary cap imposed on them by the league. On April 24th, they want to come away with rookies who add more to the team than they add to the payroll. But according to Messrs Massey and Thaler, it is not the first

pick, but the 43rd pick, or thereabouts, who typically offers the best value. To be sure, earlier picks are better players. But their performances are not good enough to warrant the bigger salaries they command. Likewise, very late picks are cheaper: but their pay is not low enough to compensate for their relatively mediocre performances.

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China's yuan

Softly, softly

Mar 31st 2005 | HONG KONG
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China is quietly making ready to float its currency

WHEN it comes to freeing China's currency, expect the unexpected, Wen Jiabao, the prime minister, warned speculators earlier this month. That the government intends to reform the yuan, currently fixed in a narrow range around 8.28 to the dollar, is not in doubt. But the timing, size and details of any move remain uncertain. In the meantime, “hot” money, betting on a revaluation, will keep flowing into yuan assets, and political pressure from China's trading partners, particularly America, will continue to make headlines.

Away from politics, however, China is quietly building the infrastructure and gaining the experience it needs before it can safely float its currency and open its capital account. This week reports from the official press said that seven international banks would join two domestic ones as marketmakers for foreign-exchange trading. HSBC, Citigroup, Deutsche Bank, ABN Amro, ING, Royal Bank of Scotland and Bank of Montreal have been selected to work alongside Bank of China and the smaller CITIC Industrial Bank.

Under the auspices of the State Administration of Foreign Exchange (SAFE), the foreign-exchange regulator, the group will start to trade and quote prices in eight so-called currency pairs, including dollar-sterling and euro-yen, through the interbank China Foreign Exchange Trade System (CFETS) in May or June.

The idea is to allow domestic banks to master the art of trading volatile currencies. If it is successful, it will serve as a training platform for trading a more flexible yuan later in the year. Currently, licensed banks are allowed to trade the yuan against four currencies—the American dollar, the Hong Kong dollar, the euro and the yen—but because it is in effect pegged, there is little judgment involved. Volumes are consequently tiny, at $209 billion in 2004, compared with the trillions traded daily on global forex markets. A proper trading platform should also spur the development of currency derivatives, which let investors hedge their exposure.

David Liao, director of rates and credit in China at HSBC, calls the new currency pairs “a very safe and prudent first step. This gets the engine going—most local banks don't know how to trade these assets dynamically. This gives them a chance to engage in marketmaking, not just price-taking.” Citigroup's treasurer for China and Hong Kong, Eddie Tan, says it “gives credibility to CFETS's prices, narrows spreads and improves accessibility”, but cautions that “this is a long way from fully liberalising trading.”

Meanwhile, on March 28th Hu Xiaolian was appointed the first female head of SAFE. The regulator also manages China's ballooning foreign-exchange reserves, which now total more than $600 billion. Ms Hu's promotion looks sudden: her predecessor, Guo Shuqing, was packed off this month to run scandal-hit China Construction Bank (CCB). But Beijing has probably been grooming Ms Hu for her

new position. She has a reputation as a reformer who has consistently called for easing China's capital controls.

How much these moves will accelerate currency reform is uncertain. Stephen Roach, chief economist at Morgan Stanley, an investment bank, and a regular visitor to Beijing, urged the Chinese again last week to “revalue sooner rather than later”, before the country accumulates an even bigger overhang of declining dollar assets. But in a recent interview with the *People's Daily*, the party mouthpiece, Zhou Xiaochuan, the central bank governor, said that the priority was to improve its exchange-rate mechanism, not simply to revalue. So the pressure will keep building. Mr Roach says the prime minister once confessed to him that the currency question keeps him awake at night. He is not alone.

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Japan's economy

Getting Japan's measure

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Which numbers do Japan-watchers follow most closely?

JAPAN'S economy may be stuck in the doldrums, but its economic statistics produce lots of excitement. Even when nothing changes, they bounce around far more than indicators in other rich countries, making it hard for punters to get their bearings. GDP, which grabs the headlines when it is released, is subject to huge revisions. The government's household survey, which looks at what consumers are doing, is nearly useless. Those who follow Japan for a living, however, do have a few beloved indicators, and these tell an interesting tale.

One of the favourites is industrial production, which is volatile but gives a detailed look at widget-makers. Instead of just sampling a few companies (as they do in, say, America), the control freaks in Japan's bureaucracy want to know exactly which companies are doing what, so their data cover a majority of manufacturers. "If you leave me on an island and tell me I'm only allowed one data set on Japan, then give me the [industrial production] report," says Jesper Koll, Merrill Lynch's chief economist in Japan. Life on Koll Island would have been grim this week, however: the latest figures for production, released on March 30th, showed a 2.1% drop in February.

For the same reasons that they follow production, economists also like Japan's raw trade data. Since Japan's domestic economy remains moribund, exports tend to drive its business cycle. And, as with production figures, the data provided are extremely detailed.

Although these figures give a good sense of where Japan's economy has just been, the hard part is gauging where it is going. For short-term forecasts, a universal favourite is the Shoko Chukin survey of confidence at small Japanese firms. The latest survey, released on March 29th, showed a sharp bounce in confidence since January. Although the measure is still below its level a year ago, the rebound at least hints that the true economic picture may not be quite as bad as the weak production figures suggest.

The big challenge, however, is figuring out when Japan's economy might finally free itself from a deflationary liquidity trap. One series that economists continually watch, and which still disappoints, is bank lending. The banks have cleaned up their balance sheets a bit, and official figures for bad-loan ratios are more in line with private estimates. But net bank lending continues to fall by around 2% year-on-year, after adjusting for factors that do not create new credit.

The other sure sign of change would be a rise in confidence among Japanese households. Since the government's household surveys shed little light on this, most economists look elsewhere for signs. The ratio of available jobs for every applicant is one closely watched measure, and it has improved sharply since early 2002. Yet Paul Sheard, Lehman Brothers' Tokyo-based chief Asia economist, worries that this could be yet another “false signal”. For years, a rise in the job-offer ratio could be counted on to predict employment growth. But in recent years the link has broken down (see chart). Mr Sheard reckons that there is now a big mismatch in the Japanese labour market, because workers with outdated skills cannot handle the new kinds of jobs that employers want to fill these days.

The best indicator of all, however, may be the one that never seems to change. Although foreign investors began pouring money into Japanese equities nearly two years ago, Japan's own savers continue to keep more than 55% of their financial assets in cash and bank deposits, despite zero interest rates. This, says Mr Sheard, is a sure sign that Japanese workers and consumers lack confidence in their economy. Until that attitude changes, deflation will continue to be a menace.

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The London Stock Exchange

What's the hurry?

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Competition concerns will delay bidding for the LSE

UNLIKE modern lovebirds, stock exchanges in search of a spouse still need their guardians' approval before marrying. So the 204-year-old London Stock Exchange (LSE) will have to wait a little longer for its suitors. On March 29th, Britain's Office of Fair Trading (OFT), a consumer-protection body, ordered that two takeover offers for the LSE must undergo review by the country's Competition Commission. This is likely to delay formal bidding by Euronext, an operator of several exchanges in continental Europe, and (if it is still interested) Deutsche Börse, a German exchange company, by as much as six months, and perhaps longer.

The watchdogs are worried that consolidation will bolster exchanges' monopolies, and give them excessive pricing power. The OFT noted that competition among Europe's big three exchanges does exist, even if it is “episodic”. Last year, for example, the LSE tried to steal business from Euronext by slashing the price of trading in Dutch shares. Customers benefited, as Euronext cut its prices in order to hold on to market share. The LSE previously ran foul of the OFT in 2003, when an investigation by that body found that the exchange had exploited its market power in 2002 to boost fees for listed British companies. The LSE contritely cut some fees last year by more than a quarter.

What now for Europe's exchanges? Euronext in particular remains keen on a merger: despite the delay, it claims to be the “natural partner” of the LSE, and says a tie-up “would benefit users and create significant value for shareholders in both companies”. Deutsche Börse is in a far weaker position. Its shareholders have already balked at the idea of a merger. They forced the company to withdraw its £1.35 billion ($2.5 billion) offer last month, though the chief executive has defiantly talked of a comeback. Last week Deutsche Börse said it would repurchase its own shares, thus mopping up some of the cash it could have used on a takeover. Now the OFT wants extra scrutiny of the German exchange's business model. Deutsche Börse provides clearing and settlement as well as trading facilities, and some grumble that this gives it too much power.

The LSE, eager to diversify into derivatives trading, will keep hoping for a partner. But with the battle for its hand on hold, takeover action may now move elsewhere. MTS, an electronic bond-trading platform based in Milan, is up for sale. MTS recently came into the spotlight as the platform used by Citigroup last summer to profit from billions of euros-worth of market-moving trades, a transaction that is being investigated by Britain's Financial Services Authority and other European regulators (although German prosecutors recently dropped a criminal probe). On the shortlist of MTS's potential buyers is Euronext, bidding in conjunction with Borsa Italiana, the Milan exchange. When wedding bells for MTS are rung—a match could be announced next month—the LSE will be looking on enviously.

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The World Bank

Bush's man to take the helm

Mar 31st 2005 | WASHINGTON, DC
From The Economist print edition

Paul Wolfowitz looks set to win the top job. What course will he steer?

EPA

Wolfowitz in listening mode?

IN THE days since George Bush tapped him to head the World Bank, Paul Wolfowitz could not have been more shrewdly diplomatic. He has soothed European critics with talk of the nobility of poverty reduction. He has vowed not to use the Bank to push the American foreign-policy agenda. Most striking for such a famous unilateralist, he has promised to listen.

It has paid off. As *The Economist* went to press, America's deputy defence secretary and advocate of the Iraq war looked set to be confirmed by the Bank's board of directors on March 31st—quite a feat, given all the fuss about his nomination.

But Mr Wolfowitz, a former ambassador to Indonesia, did not quiet his detractors through charm alone. To be sure, backroom deals were made. The Europeans, it seems, have tempered their opposition to Mr Wolfowitz in return for another top post at the Bank. (They already regard the vacancy at the head of the International Finance Corporation, the private-sector arm of the World Bank, as rightfully theirs.) And France, desperate to get its man Pascal Lamy installed as the next chief of the World Trade Organisation, has kept its Wolfowitz-bashing in check.

Now that he is as good as in, what to expect? Even Europeans hope that Mr Wolfowitz will bring order to the Bank's management. James Wolfensohn, the outgoing president, has been criticised for being little interested in the Bank's core business of lending $20 billion a year to some 80 countries. He preferred championing new programmes. So the Bank has been ill-focused and plagued by mission creep. Mr Wolfowitz has run big bureaucracies (though his strengths may be more conceptual than practical) and could start by setting clear priorities. First, though, he will have to win over Bank staffers, many of whom are appalled at the idea of serving under him. An internal comment line was flooded with 1,300 remarks about the nomination, only 8% of which were positive or neutral.

On the upside, Mr Wolfowitz may lift the World Bank's prestige. Far from picking an obscure chief in order to marginalise the place, Mr Bush tapped one of his top lieutenants. But their relationship will also raise questions about the Bank's independence. Mr Wolfowitz has built his reputation on the Iraq war and America's outspoken peddling of democracy in the Middle East. The advice the Bank gives could be seen as tainted by American foreign-policy goals, whether it is or not.

This could hurt the Bank's work in places like Egypt or Algeria, where the Iraq war is deeply unpopular. To start winning over poor countries as well as European critics, Mr Wolfowitz will surely be on his best behaviour at the spring meetings of the World Bank and the International Monetary Fund later this month.

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Economics focus

The regulators' best friend?

Mar 31st 2005
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Europeans embrace the logic of cost-benefit analysis just as some Americans grow suspicious of it

ACCORDING to one of the European Commission's pettifogging regulations, cucumbers sold in the single market cannot be too curvy. According to another proposal, packets of coffee and chicory must conform to weights specified in Brussels.

The first regulation is largely apocryphal, a myth propagated by Euro-sceptic newspapers in Britain and debunked by the commission's team of counter-spinners. But the second regulation is quite real. It was one of several examples of regulatory overkill lambasted by Günter Verheugen, a vice-president of the commission, in a speech last month. Mr Verheugen wants to withdraw such needless regulations, simplify others and subject new proposals to “solid cost-benefit analyses”.

Cost-benefit analysis—which typically quantifies the attractions and drawbacks of a regulation, converts them into dollars or euros, then tots them up—sounds both dull and innocuous. But its findings can be revealing. For example, Robert Hahn, a scholar at the American Enterprise Institute in Washington, DC, calculates that over 40% of American regulations impose costs that outweigh the benefits they confer*. What might a similar review of the European Union's regulatory rule-book reveal? How many of the 90,000 pages of the *acquis communautaire* might be safely torn out, to the net benefit of the union?

The findings of Mr Hahn and other cost-benefit analysts in America have not passed unchallenged, however. A number of critics doubt the worth of the techniques and distrust the motives of the practitioners. They say that America's current administration is guilty of “regulatory underkill” and that cost-benefit analysis is its weapon of choice.

Whether or not this is fair to President George Bush's administration, is it fair to cost-benefit analysis? Is the method fatally flawed and intrinsically anti-regulatory? The Centre for Progressive Regulation (CPR), a think-tank that shelters many sceptics, thinks so. It objects to two features in particular: the “translation of lives, health, and the natural environment into monetary terms” and “the discounting of harms to human health and the environment that are expected to occur in the future”†.

Those who question cost-benefit analysis doubt that a price tag can ever be put on life. How could one seriously count the cost of death and injury caused by road accidents, for example? But, as Robert Frank, an economist now at Cornell University, has pointed out, even the fiercest critics do not get their brakes checked every morning. They have more pressing uses of their time. Road safety, then, does have an opportunity cost, and an economist will want to know what it is. Thus,

when the CPR accuses economists of “pricing the priceless”, most economists would plead guilty as charged. They devote considerable effort, and not a little ingenuity, to discovering the implicit price of many things that are not traded directly in arm's-length markets.

As the critics allege, cost-benefit analysis works like a kind of universal solvent. It breaks qualities down into quantities, differences of kind into differences of degree, gold into base metal. A safe childhood, a breathtaking view, a clean pair of lungs—all are reduced to fungible “dollar-equivalents”. In doing so, the method forces into the open trade-offs that many would rather not face too squarely. Should taxpayers' money be devoted to keeping grandmother alive for an extra month in an intensive-care unit? Or would it be better spent reducing the risk of asthma faced by deprived children in the polluted inner city? Such comparisons may seem crass. But they are democratic.

The less sweet hereafter

Accused of pricing the priceless, economists are charged with under-pricing the future as well. Most practitioners of cost-benefit analysis assume that gains in the hereafter are worth less today than gains in the here-and-now. They discount future benefits, including lives saved, in much the same way that they discount future profits or costs.

Those who question cost-benefit analysis doubt that a price tag can ever be put on life

But are lives saved 12 months' hence really worth less than lives saved this year? To say so, the critics argue, is to make a false analogy between financial resources, which can be borrowed from, or invested for, the future, and human life, which cannot. By discounting future lives, economists also further an anti-regulatory agenda, the critics allege. After all, the costs of most health and safety regulations arrive upfront. The benefits can take time to emerge.

Discounting future lives is indeed awkward, and some economists have fretted about it for decades. But it is not necessarily anti-regulatory. If regulators discounted costs, but not lives saved, they would defer action indefinitely, Mr Hahn points out. The benefits would be the same if they waited a year (or a decade, for that matter) but the costs would always be less.

Cost-benefit analysis does not always argue for less regulation. It weeds out regulations that do not pay their way, but it can also identify measures not on the statute books, that should be. For example, defibrillators installed in workplaces might be a cost-effective way to save victims of heart attacks. The White House's Office of Management and Budget has sent about a dozen letters to the agencies it oversees prompting them to investigate such potentially beneficial regulations.

Fundamentally, it is not “anti-government” to weigh the costs of public action. On the contrary, the “regulatory excess” Mr Verheugen sees in the EU has doubtless damaged the prestige of Brussels. Some regulatory circumspection, nudged by cost-benefit sheepdogs, might even rehabilitate it. If the EU had not mandated the weights of chicory packets, perhaps people would not so readily believe that it regulates the curvature of cucumbers.

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*“In Defence of the Economic Analysis of Regulation”. American Enterprise Institute

†“Cost-Benefit Analysis”. Available at www.progressiveregulation.org

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Mathematics

Proof and beauty

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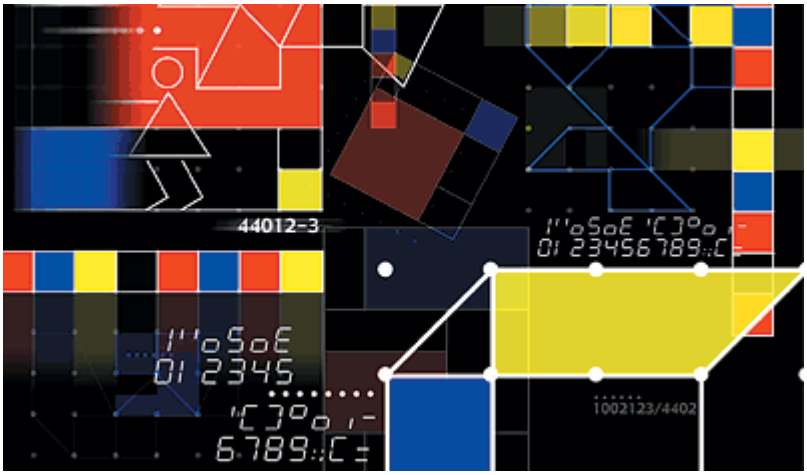

Just what does it mean to prove something?

QUOD erat demonstrandum. These three words of Latin, meaning, “which was to be shown”, traditionally mark the end of a mathematical proof. And, for centuries, a proof was exactly that: showing something by breaking it down into readily agreed-upon steps. Proving something was a matter of convincing one's peers that it has indeed been shown—no more, and no less. The rhetorical flourish of a Latin epigram also has served to indicate that the notion of proof is well understood, and commonly agreed. But that notion is now in flux. The use of computers to prove mathematical theorems is forcing mathematicians to re-examine the foundations of their discipline.

Through much of the 20th century, questions of mathematical rigour were passed off to logicians and philosophers—working mathematicians have been, for the most part, content to work with an intuitive definition of proof.

This notion works when each step of a proof is transparent, and can be examined by all. Proof is then just a process of reducing one big, non-obvious step, to a bunch of small, obvious ones. However, if a computer is used to make this reduction, then the number of small, obvious steps can be in the hundreds of thousands—impractical even for the most diligent mathematician to check by hand. Critics of computer-aided proof claim that this impracticability means that such proofs are inherently flawed. However, its defenders point out that some theorems that many mathematicians consider to have been proved in the classical manner also have proofs which are so long as to be uncheckable.

The most famous case of this is something called the classification of finite simple groups. These are abstract objects with certain mathematical properties; the claim is that, over a 30-year span in a series of papers totalling some 15,000 pages, all possible such objects were enumerated. Though the mathematical consensus is that the classification (nicknamed the “enormous theorem”) is complete, there are sceptics who point out that the dispersed proof is essentially unverifiable.

What, then, does constitute a proof in the modern age? Two recent examples of how computers have been used to prove important mathematical results illustrate how the field is changing.

A colouring problem

The first is the “four colour theorem”, which is perhaps the mathematical theorem most likely to bedevil a toddler. It states that any planar map (that is to say, a flat one) can be coloured with at most four colours in a way that no two regions with the same colour share a border. It was first proposed in 1852 but, despite efforts by a century's worth of mathematicians, went unproven until 1976, when Kenneth Appel and Wolfgang Harken, then of the University of Illinois, announced that they had proved the result. However, Dr Appel and Dr Harken used a computer to help them prove the result by examining about 10,000 cases. (Their proof also relied on a lot of old-fashioned gruntwork.)

A new proof, in a paper just written by Georges Gonthier, of Microsoft Research, in Cambridge, England, also uses a computer. Dr Gonthier used similar techniques to those of Dr Appel and Dr Harken in his proof. However, rather than have part of the proof done by hand, and part by computer, he has automated the entire proof, and done so in such a manner that it is a formal proof.

Formal proof is a notion developed in the early part of the 20th century by logicians such as Bertrand Russell and Gottlob Frege, along with mathematicians such as David Hilbert (who can fairly be described as the father of modern mathematics) and Nicolas Bourbaki, the pseudonym of a group of French mathematicians who sought to place all of mathematics on a rigorous footing. This effort was subtle, but its upshot can be described simply. It is to replace, in proofs, standard mathematical reasoning which, in essence, relies on hand-waving arguments (it should be obvious to everyone that B follows from A) with formal logic.

The benefit of formal logic is that it is pure syntax. At no point does proceeding from one step to the next require understanding, let alone mathematical intuition. It is merely a matter of applying an agreed-upon set of rules (for instance, that any thing is equal to itself, or that if something is true for all members of a set of objects, it is true for any one specific object) to a set of agreed-upon structures, such as sets of objects. Formal proofs, however, never gained a foothold in the mainstream mathematical community because they are tedious—they take many steps to prove something in cases in which a mathematician might just take one. To those who would use a computer, however, they have two virtues.

The first is that computers, with their tolerance for tedium, are particularly suited to writing the steps of a formal proof down. The second is that, by writing those steps down in what is called a “proof witness” instead of just announcing that a program had arrived at a true result, outsiders might gain greater confidence in a result derived from a computer.

As Dr Gonthier, and other supporters of the use of computers, point out, there is no reason to think that humans are less fallible than computers when doing long computations or proofs. Indeed, the opposite might be true.

The idea behind both proofs of the four colour theorem is to suppose that the theorem is violated—to assume, in other words, that there is some sort of map that requires five colours to fill in. The next step is to find the mathematically simplest versions of such maps. (What is meant by simplicity in this case is actually quite involved.) Dr Gonthier then showed that all these maps can, in fact, be re-coloured with only four colours, establishing the theorem by contradiction. The catch is that there are many such regions, which must be examined on a case-by-case basis; part of the mathematical

difficulty lies in proving that the cases considered suffice to cover all possible maps, and part stems from proving that each individual case is indeed colourable with just four colours.

Dr Gonthier says he is going to submit his paper to a scientific journal in the next few weeks. But he would do well not to get his hopes up about getting his paper published anytime soon. A 1998 paper which proved another long-standing conjecture using a computer, by Thomas Hales, of the University of Pittsburgh, has only recently been accepted by the *Annals of Mathematics*, perhaps the field's most prestigious journal, and is scheduled to be published later this year.

The music of the spheres

Dr Hales proved Kepler's conjecture, which is that the most efficient way to pack spheres in a box is the way grocers usually pack oranges—in a so-called “face-centred cubic lattice”—the arrangement whereby each layer of oranges is shifted so that an orange touches four oranges in the layer below. Kepler posited the conjecture in 1611, and it had long resisted efforts at proof. Indeed, Hilbert made it one of his list of the 23 most difficult and fundamental questions in mathematics, in 1900. Dr Hales proved the conjecture by using a trick different in nature to Dr Gonthier's.

Rather than argue by contradiction, he reduced what was a problem about an infinite number of things (the Kepler conjecture considers an infinite number of spheres in an infinitely large space) to a statement about a finite, but very large, number of mathematical objects. He then used the computer to prove bounds about these objects, some of which, he says, can be thought of as sculptures made of cables and struts. Loosely speaking, he reduced the Kepler conjecture to a problem of considering whether, given a set of cables, which have no minimum length, but can only be stretched to a certain extent, and struts, which have a limit on how much they can be compressed, one can build a sculpture of a certain type. Dr Hales used a computer, as there were roughly 100,000 such structures that had to be considered in order to prove the Kepler conjecture.

Although the *Annals* will publish Dr Hales's paper, Peter Sarnak, an editor of the *Annals*, whose own work does not involve the use of computers, says that the paper will be accompanied by an unusual disclaimer, stating that the computer programs accompanying the paper have not undergone peer review. There is a simple reason for that, Dr Sarnak says—it is impossible to find peers who are willing to review the computer code. However, there is a flip-side to the disclaimer as well—Dr Sarnak says that the editors of the *Annals* expect to receive, and publish, more papers of this type—for things, he believes, will change over the next 20-50 years. Dr Sarnak points out that maths may become “a bit like experimental physics” where certain results are taken on trust, and independent duplication of experiments replaces examination of a colleague's paper.

Some of the movement towards that direction may be forestalled by efforts of Dr Gonthier's type to use computers to provide formal proofs and proof witnesses. It is possible that mathematicians will trust computer-based results more if they are backed up by transparent logical steps, rather than the arcane workings of computer code, which could more easily contain bugs that go undetected. Indeed, it is for this exact reason that Dr Hales is currently leading a collaborative project to provide a formal proof of the Kepler conjecture. In perhaps a more prosaic example of mathematics embracing technology, he is co-ordinating that effort using a blog called Flyspeck (the word, Dr Hales explains, means to examine closely).

Why should the non-mathematician care about things of this nature? The foremost reason is that mathematics is beautiful, even if it is, sadly, more inaccessible than other forms of art. The second is that it is useful, and that its utility depends in part on its certainty, and that that certainty cannot come without a notion of proof. Dr Gonthier, for instance, and his sponsors at Microsoft, hope that the techniques he and his colleagues have developed to formally prove mathematical theorems can be used to “prove” that a computer program is free of bugs—and that would certainly be a useful proposition in today's software society if it does, indeed, turn out to be true.

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Longevity

All you can't eat

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Even a slight decrease in calories may lead to longer lifespans

MOST people would not object to living a few years longer than normal, as long as it meant they could live those years in good health. Sadly, the only proven way to extend the lifespan of an animal in this way is to reduce its calorie intake. Studies going back to the 1930s have shown that a considerable reduction in consumption (about 50%) can extend the lifespan of everything from dogs to nematode worms by between 30% and 70%. Although humans are neither dogs nor worms, a few people are willing to give the calorie-restricted diet a try in the hope that it might work for them, too. But not many—as the old joke has it, give up the things you enjoy and you may not live longer, but it will sure seem as if you did.

Now, though, work done by Marc Hellerstein and his colleagues at the University of California, Berkeley, suggests that it may be possible to have, as it were, your cake and eat it too. Or, at least, to eat 95% of it. Their study, to be published in the *American Journal of Physiology—Endocrinology and Metabolism*, suggests that significant gains in longevity might be made by a mere 5% reduction in calorie intake. The study was done on mice rather than people. But the ubiquity of previous calorie-restriction results suggests the same outcome might well occur in other species, possibly including humans. However, you would have to fast on alternate days.

Why caloric restriction extends the lifespan of any animal is unclear, but much of the smart money backs the idea that it slows down cell division by denying cells the resources they need to grow and proliferate. One consequence of that slow-down would be to stymie the development of cancerous tumours.

Cancer is the uncontrolled growth of cells. For a cancer to develop efficiently, it needs multiple mutations to accumulate in the DNA of the cell that becomes the tumour's ancestor. To stop this happening, cells have DNA-repair mechanisms. But if a cell divides before the damage is repaired, the chance of a successful repair is significantly reduced. A slower rate of cell division thus results in a slower accumulation of cancer-causing mutations.

At least, that is the theory. Until now, though, no one has tested whether reduced calorie intake actually does result in slower cell division. Dr Hellerstein and his team were able to do so using heavy water as a chemical “marker” of the process.

Heavy water is heavy because the hydrogen in it weighs twice as much as ordinary hydrogen (it has a proton and a neutron in its nucleus, instead of just a proton). Chemically, however, it behaves like its lighter relative. This means, among other things, that it gets incorporated into DNA as that molecule doubles in quantity during cell division. So, by putting heavy water in the diets of their mice, the researchers were able to measure how much DNA in the tissues of those animals had

been made since the start of the experiment (and by inference how much cell division had taken place), by the simple expedient of extracting the DNA and weighing it.

Dr Hellerstein first established how much mice eat if allowed to feed as much as they want. Then he set up a group of mice that were allowed to eat only 95% of that amount. In both cases, he used the heavy-water method to monitor cell division. The upshot was that the rate of division in the calorie-restricted mice was 37% lower than that in those mice that could eat as much as they wanted—which could have a significant effect on the accumulation of cancer-causing mutations.

But calorie-reduction is not all the mice had to endure. They were, in addition, fed only on alternate days: bingeing one day and starving the next. There were two reasons for this. First, bingeing and starving is how many animals tend to feed in the wild. The uncertain food supply means they regularly go through cycles of too much and too little food (it also means that they are often restricted to eating less than they could manage if food were omnipresent). The reasoning here is that metabolic processes evolved in a particular context and might be expected to work best in that context. Replicate the evolutionary context and you might get a better outcome.

The second reason, according to Elaine Hsieh, one of Dr Hellerstein's colleagues, is that cutting just a few calories overall, but feeding intermittently, may be a more feasible eating pattern for some people to maintain than making small reductions each and every day.

Whether modern man and woman, constantly surrounded by food and advertisements for food, would really be able to forgo eating every other day is debatable. But even if it does work (and Dr Hellerstein has yet to prove that reduced cell division translates into longer life) the temptations of life may prove just too much for wannabe Methuselahs.

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Ecosystems

Habitats for humanity

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A new report suggests that humanity is stretching its natural assets

BESIDES being nice to look at, the green and feathered stuff that makes up the environment is rather useful. Habitats provide humans with services such as water treatment, pollination and sediment capture. This is particularly important to the poor, who rely on natural resources. So, five years ago, the United Nations' secretary-general, Kofi Annan, commissioned an assessment of the consequence of ecosystem changes for human well-being.

So, on March 30th, the Millennium Ecosystem Assessment (MA)—an effort that cost $24m and involved around 1,400 experts from 95 countries—reached its conclusions on the global and regional patterns in these services. Humans have changed ecosystems more rapidly and extensively in the past 50 years than in any comparable time in human history, it says, with a quarter of the planet now under cultivation. The exchange of natural habitat for cultivated land has been largely beneficial to humanity thus far.

At present, the oceans probably represent the clearest example of damage to natural assets. Fish stocks are in a poor state, and in many sea areas the weight of fish is less than one-tenth, or even one-hundredth, of what it was before the introduction of industrial fishing. There are also a number of examples of overfishing which have led to sudden changes where one habitat shifts to a different type. Perhaps the best known case is the complete collapse of the Atlantic cod fishery off the coast of Newfoundland in the early 1990s. Although fishing has not resumed, cod have not returned to the fishery.

Around two-thirds of the ecosystem services the MA looked at (everything from fresh water to air, water and pest regulation) are being degraded or used unsustainably. Some services, though, have been enhanced. Three of these are the production of food in the form of crops, livestock and aquaculture. The fourth is that terrestrial ecosystems have become a net sink of carbon dioxide emissions in the past 50 years. This is due to an increase in forest cover in the rich world.

The point of the MA is to provide a baseline against which governments can measure the importance of future changes to the environment, and so, hopefully, make better policy choices. The upshot is a warning that human activity is putting a strain on habitats and that the ability of the ecosystems to sustain future generations can “no longer be taken for granted”. The MA's findings are likely to have implications for achieving the UN's goals of reducing poverty and improving health in poorer countries. Given the number of scientists and governments involved, there may be little debate about the findings. What is liable to be a far more contested issue is what, if anything, should be done.

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Science

Open up their eyes

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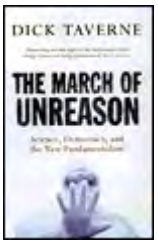
Two books, by Dick Taverne and Thomas Friedman (see article), lobby hard for rationalism, progress and globalisation. Why are they not more convincing?

THIS cogent restating of the case for science, reason, optimism and the other values of the Enlightenment is clear about its opponents. They include anyone who uses alternative medicine, or who buys organic food, or worries about genetic modification, or opposes nuclear power, or likes post-modernism, or doesn't vaccinate their children properly, or distrusts scientists, or believes the Bible, or dislikes global capitalism or thinks that human progress damages the environment. In Dick Taverne's view, all these wrong-headed beliefs are part of the same batty, sentimental mindset that ultimately threatens democracy.

A former lawyer and centre-left politician who was ennobled in 1996, Lord Taverne presents a useful compendium of facts and arguments that are often drowned out by media scare stories and green propaganda. Alternative medicine is at best a placebo, and at worst outright harmful; if it worked reliably, it would not be alternative. Organic food is often worse for the environment than conventional farming. GM crops, by contrast, are hugely

The March of Unreason: Science, Democracy and the New Fundamentalism
By Dick Taverne



Oxford University Press; 318 pages; $29.95 and £18.99

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promising and rich western nations' antipathy towards them is a mystifying bit of self-indulgence. The precautionary principle in science is either so vague as to be meaningless or a disastrous recipe for stagnation. Globalisation is making the planet richer and therefore cleaner. Global warming will not be solved by greater poverty.

Lord Taverne, who is married to a scientist, expounds and exposes like the barrister he once was. He is gutsy, fluent and ambitious. Rather than fight battles singly, he prefers all-out war on what he sees as unreason. But the result is also flawed. Although there is a common thread to much modern silliness—people who believe in astrology may well be easily convinced that “Frankenstein” GM food is poisonous and that well-shaken water heals—real life is often a compromise between different kinds of irrationality, not a choice between sense and nonsense. To take a small example, many quite sensible people buy organically produced meat, not because they believe in all the principles of the organic movement, or even because they think it tastes significantly better or is always more healthy, but just because they feel queasy about factory farming.

Lord Taverne ducks the problem. There are ethical issues in modern farming, but the market offers very few choices: conventional meat and free-range or organic. Consumers may plump for the latter as the least bad option, not because they are soft-headed green nutcases.

This is symptomatic of the book's greatest weakness: an insistence that the scientific, rationalist world-view is not just mostly right, but always so without exception. This is manifest in its skimpy and simplistic treatment of religion. In attacking a loosely defined “fundamentalism”, Lord Taverne conflates private piety with public zealotry, and appears to assume that deeply held religious belief is always synonymous with intolerance. Evidence-based approaches to life are undoubtedly useful, but what about ethics?

The real question for supporters of Lord Taverne's excellent causes is how to deal with opponents who are wrong but not wrong-headed. If a mother, for example, wants her child vaccinated with individual mumps, measles and rubella shots, rather than a combined one, are doctors wise to refuse on the quite reasonable grounds that there is no medical evidence that multiple vaccines are dangerous?

In Britain, where this was recently an issue of national debate, the medical authorities were so keen not to bow to popular hysteria following the assertion that the multiple vaccine was linked to an increase in autism that they refused to make single shots available. The result was not a triumph for reason. It stoked conspiracy theories, and vaccination rates plunged dangerously. For Lord Taverne, that is all the more cause to bewail the march of unreason. In retrospect, it might have been better quietly to make single vaccines available, which would have defused a popular panic, rather than aggravating it.

Similarly, alternative medicine may have the flimsiest conceptual foundations. But as a placebo, it helps some people recover. That presents an interesting ethical dilemma for doctors who themselves believe in medical science, but who treat patients who don't—something that this forceful but unfocused book ignores.

By Dick Taverne.
Oxford University Press; 318 pages; $29.95 and £18.99

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Globalisation

Confusing Columbus

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THE term “populariser” is often used to sneer at writers who manage to reach a wide audience by those who don't. But not all popularisers are guilty of sensationalising or over-simplifying serious topics. There is a sense in which everyone in modern societies, even the most earnest or intellectually gifted, relies on the popularisation of ideas or information, if that term is understood to mean the making of complex issues comprehensible to the non-specialist. Achieving this is admirable.

In the field of international affairs one of America's most prominent popularisers is Thomas Friedman, the leading columnist on the subject for the *New York Times*. Mr Friedman constantly travels the world, interviewing just about everyone who matters. He has won three Pulitzer prizes. If anyone should be able to explain the many complicated political, economic and social issues connected to the phenomenon of globalisation, it should be him. What a surprise, then, that his latest book is such a dreary failure.

The World is Flat: A Brief History of the Twenty-First Century
By Thomas L. Friedman

Farrar, Straus and Giroux; 488 pages; $27.50. Penguin/Allen Lane; £20

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Mr Friedman's book is subtitled “A Brief History of the Twenty-First Century”, but it is not brief, it is not any recognisable form of history—except perhaps of Mr Friedman's own wanderings around the world—and the reference to our new, baby century is just gratuitous. Even according to Mr Friedman's own account, the world has been globalising since 1492.

This kind of imprecision—less kind readers might even use the word “sloppiness”—permeates Mr Friedman's book. It begins with an account of Christopher Columbus, who sets out to find India only to run into the Americas. Mr Friedman claims that this proved Columbus's thesis that the world is round. It did nothing of the kind. Proof that the world is round came only in 1522, when the sole surviving ship from Ferdinand Magellan's little fleet returned to Spain.

Undaunted by this fact, Mr Friedman portrays himself as a modern-day Columbus. Like the Italian sailor, he also makes a startling discovery—this time on a trip to India—though it turns out to be just the opposite of Columbus's. An entrepreneur in Bangalore tells him that “the playing field is being levelled” between competitors there and in America by communications technology. The phrase haunts Mr Friedman. He chews it over, and over, and over. And then it comes to him: “My God, he's telling me the world is flat!”

Of course, the entrepreneur, even by Mr Friedman's own account, said nothing of the kind. But Mr Friedman has discovered his metaphor for globalisation, and now nothing will stop him. He shows

his readers no mercy, proceeding to flog this inaccurate and empty image to death over hundreds of pages.

In his effort to prove that the world is flat (he means “smaller”), Mr Friedman talks to many people and he quotes at length lots of articles by other writers, as well as e-mails, official reports, advertising jingles, speeches and statistics. His book contains a mass of information. Some of it is relevant to globalisation. Like many journalists, he is an inveterate name-dropper, but he does also manage to interview some interesting and knowledgeable people. Mr Friedman's problem is not a lack of detail. It is that he has so little to say. Over and over again he makes the same few familiar points: the world is getting smaller, this process seems inexorable, many things are changing, and we should not fear this. Rarely has so much information been collected to so little effect.

A number of truly enlightening books have been published recently which not only support globalisation, but answer its critics and explain its complexities to the general reader—most notably Jagdish Bhagwati's “In Defence of Globalisation” and Martin Wolf's “Why Globalisation Works”. Because of Mr Friedman's fame as a columnist, his book will probably far outsell both of these. That is a shame. Anyone tempted to buy “The World is Flat” should hold back, and purchase instead Mr Bhagwati's book or Mr Wolf's.

By Thomas L. Friedman.
Farrar, Straus and Giroux; 488 pages; $27.50.
Penguin/Allen Lane; £20

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Indonesia

Madness descending

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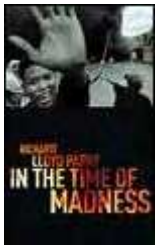
FREEDOM has its darker side. The fall of communism in eastern Europe saw Yugoslavia disintegrate into warfare and atrocity. On the other side of the world a decade later, when the aged tyrant Suharto was driven from power by unarmed democratic protesters, the suffering of Indonesia was only just beginning.

You could not hope for a better guide to the strange and terrible transformation that befell Indonesia in 1998 than Richard Lloyd Parry, a British journalist who, though he nominally lived in Tokyo, spent most of his time in the mighty archipelago, writing for the *Independent* and the *Times*. The shortage of good books in English about Indonesia, the world's fourth-most populous nation but one of its most under-reported, has often been remarked on. Mr Lloyd Parry's volume fills a crucial space on the bookshelves.

In the Time of Madness
By Richard Lloyd Parry



Jonathan Cape; 314 pages; £12.99

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What happened, alas, after Mr Suharto departed was that the hatreds and conflicts that his iron rule had long suppressed boiled over. Some of these were religious: though Indonesia is the world's largest Muslim country, it has a sizeable minority of Christians. Others were ethnic. Indonesia is a vast and highly diverse country, and the dominance of the Javanese is resented elsewhere.

AP

Strange screams of death

Still other conflicts are economic. Migrations, whether forced or voluntary, have bred tensions and resentments. Mr Suharto's fall, and the hapless reign of his successor, B.J. Habibie, were played out against the backdrop of the Asian economic crisis, which hit Indonesia far harder than any other country. Other conflicts, again, are purely political in nature. Contained within Indonesia, an artificial country that owes its existence mainly to the accident of Dutch colonisation, are a goodly number of islands and regions that resent their incorporation: from Aceh, an ancient and powerful Islamic sultanate, to West Papua, a land of Christians andanimists that was only incorporated into Indonesia in 1963.

And then, of course, there is East Timor, the only part of Mr Suharto's vast empire that contrived to break free after his political demise. Mr Lloyd Parry was there for the referendum, in 1999, that precipitated the bloodiest and most systematic violence in Indonesia's post-Suharto trauma. His account of the

destruction of Dili, East Timor's capital, by militias, egged on, armed and assisted by Indonesia's forces is harrowing: the more so, perhaps, because, besieged in the UN compound there, he could report at first hand only grim fragments. He saw desperate refugees trying to push their children over the compound walls, and understood only then the magnitude of the terror that could compel a mother to push her baby through razor-wire. To his lasting shame, he confesses, he ran away.

Mr Lloyd Parry had seen horror like it many times before. In the course of this well-written but deeply bleak book, he observes mayhem in Borneo and in Jakarta itself, before the sad conclusion reached in East Timor. A longer book, though, might have offered more context. The bloodletting in 1998 and after was mercifully minor compared with the hundreds of thousands who perished in the anti-Chinese slaughter of 1965-66, or in East Timor itself after the Indonesian invasion in 1975. And Indonesia now, despite many terrible events, has found a kind of peace. It suddenly seems like a stable democracy, with an economy that is doing reasonably well, and (poor Aceh aside) no real inclination towards secession. Perhaps the time of madness really has passed.

By Richard Lloyd Parry.
Jonathan Cape; 314 pages; £12.99

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Shakespeare

French hissing

Mar 31st 2005
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IT IS not often that a book on Shakespeare takes you unawares. After all, what is there possibly left to say that's new? John Pemble shatters such complacency. Not only does he tell a fascinating story, he tells it in crisp, coruscating prose. This isn't the latest academic fad, but a gripping tale of a struggle for cultural hegemony.

Shakespeare was virtually unknown in France until the 1720s, when Voltaire discovered him as part of his love affair with English science and philosophy. Soon the bard was an object of wonder. Quintessentially Anglo-Saxon, he was regarded as highly dangerous—an affront to French taste and the values of classical drama.

Shakespeare Goes to Paris: How the Bard Conquered France
By John Pemble

Hambledon & London; 256 pages; $39.95 and £19.99

Buy it at
Amazon.com
Amazon.co.uk

Racine and Corneille had dictated the norms under Louis XIV. They wrote in rhyming couplets, adhering to the Aristotelian unities of time, place and action, while avoiding subplots, bad language, violence and sex. There were no corpses in French tragedies, making Shakespeare seem vulgar in comparison. His plays had too many characters, too much variety of speech and action, were morally ambiguous, and (worst of all) were written in blank verse. They circulated in bowdlerised translations, but were meant solely for the page and not the stage.

The French Revolution had surprisingly little impact on the tastes of theatre audiences, which remained as conservative as before. It was, paradoxically, the rise of romantic opera with its love of gothic anguish and obsession with the Tudors that first nurtured ideas that “modern” adaptations could be extracted from Shakespeare's “barbarous” idioms.

Even then, the plays were gutted. “Hamlet”, “Romeo and Juliet” and “King Lear” were the first to be seen. But “Hamlet” had no ghost, no Rosencrantz and Guildenstern, no players, no gravediggers, no fencing match and no dead hero at the end. In “Romeo and Juliet” the brawling, the ball, the nurse, Friar Laurence and the balcony were cut; after the first performance ended in a riot, the play was given a happy ending. In “King Lear”, likewise, there was neither a fool nor a catastrophe, since the protagonist regained his sanity and his throne.

In his most poignant and hilarious chapter, Mr Pemble shows how Desdemona's handkerchief triggered a battle for lexical political correctness. *Mouchoir* was a word that well-bred French people couldn't allow themselves to utter or hear in public. This one was “spotted with strawberries”, but *fraises* ranked even lower than *mouchoir* in the hierarchy of linguistic ill manners. It took a century for Desdemona's handkerchief to be called by its proper name, and as long again before any accurate rendering could be given of its decoration.

The breakthrough was André Gide's translation of “Hamlet”, which was staged in Paris in 1946. Despite the turmoil and lengthy interruptions that had afflicted Gide's own work, he ensured Shakespeare's elevation to cult status. Gide built on a sea-change in attitudes during the inter-war years that called for fully authentic versions of the plays, liberating Shakespeare from the romanticists and classicists alike.

Jean-Paul Sartre remarked how French writers had been “abruptly reintegrated into history” by the Nazi occupation. Their attitude to Shakespeare was transformed, since it could no longer be claimed that history had a clear moral purpose. Obsolete no longer, Shakespeare's “monstrous”, “chaotic”, “nihilist” style was the one that “modernity” demanded. This is not, Mr Pemble assures us, the whole explanation, but one thing is clear. By the late 1950s, Shakespeare had entered the French soul. No one who has seen the Comédie-Française perform his plays at the Salle Richelieu in Paris is likely to forget the special buzz in the audience, for the bard is the darling of France. This brilliant book tells us why tastes have so radically changed.

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By John Pemble.
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Travel writing

Hither thither

Mar 31st 2005
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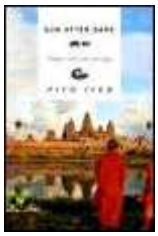
ONE midsummer evening in La Paz, Pico Iyer got lost in a moonlit suburb only to discover, to his astonishment, that he had wandered through the exact same nondescript streets two decades before. As a metaphor, the story illuminates one of Mr Iyer's favourite conundrums: the traveller seeks new experience in a world in which nothing is new, where every gust of wind has been recycled. And yet it might also seem slightly improbable.

Such coincidences permeate “Sun After Dark”, a collection of Mr Iyer's short travel pieces and other jottings from the past dozen years. A truly globalised writer—resident in several countries at different times, yet truly at home in none—Mr Iyer has won applause in America where this book comes out this month, but relatively little in his birthplace, Britain. Mr Iyer writes sparse and sinewy prose. Occasionally, as when he observes pilgrims gathering in Lhasa before dawn—a city and an hour he clearly loves—he is wonderfully evocative of place.

Sun After Dark: Flights into the Foreign
By Pico Iyer



Knopf; 240 pages; $22.95. Bloomsbury; £7.99

Buy it at
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Amazon.co.uk

But place is more often of secondary importance, existing, in a series of carefully edited snapshots, merely to illustrate the writer's own philosophising. Thus Lhasa's packs of dogs: “serene creatures who sit outside the temples of Tibet, seeming to guard the monks”; this is nonsense, as anyone who has been terrorised by these beasts will attest.

In Cambodia, Mr Iyer at one point contemplates the photographed faces of Pol Pot's victims, and at another the demons that are carved into the walls of Angkor Wat—and then proceeds to liken the local urchins' grubby faces to both. In weird, backward Bolivia, he has read—but sensibly not bothered to confirm—that “some people did not even know how to put on clothes.” Bewilderingly (and to his editor's shame) Mr Iyer also inflicts on us a pilgrimage to a Californian Buddhist retreat where Leonard Cohen is to be found waiting on an elderly Japanese monk: “Neither seems to need anything from the other, yet each allows the other to be deeper than he might be otherwise.”

Such instances are annoying because when Mr Iyer is good, he is very good. The best example of this—along with the descriptions of Lhasa and of a blistering ride across Yemen—features his dislocating journeys through time. “I sometimes feel I've travelled into a deeply foreign country under jet lag, somewhere more mysterious than India or Morocco,” he writes. Instead of battling the effects of long-haul travel, Mr Iyer embraces them. “The lure of modern travel”, he says, is not the arriving but the stopovers in places that befuddled minds cannot comprehend: “Some long grey airport passageway that leads from one nowhere space to another.” Though virtually every mountain and river has been mapped, Mr Iyer suggests, travel can still free us from our discontented selves. “‘You'll call me when you get there?' a sweetheart asks. ‘Of course I will', I

say, and do. But whoever is calling isn't the person who made the promise, and the sentences, the sentiments, so achingly alive last night, sound as if they're coming from someone else." We've certainly all been there.

By Pico Iyer.
Knopf; 240 pages; $22.95.
Bloomsbury; £7.99

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Amazon worldwide bestsellers

The big book index

Mar 31st 2005
From The Economist print edition

Bestselling science books

SCIENCE lovers around the world are reading about the universe, the environment, first aid, plants, flowers, time, space, superstring theory, the human body, milking cows, ploughing and the fabric of the cosmos. Will there be anything left after all that?

1. Blink: The Power of Thinking Without Thinking.
By Malcolm Gladwell. *Little Brown; 288 pages; $25.95. Allen Lane; £16.99*

Blink analyses the decisive glance that knows in an instant. Using scenes from a marriage to make his case, along with heart-attack triage, speed dating, choking on the golf course, selling cars and military manoeuvres, Malcolm Gladwell campaigns for snap judgments and thinking small.

Click here to buy from Amazon.com or Amazon.co.uk

2. The Fabric of the Cosmos: Space, Time, and the Texture of Reality.
By Brian Greene. *Vintage; 592 pages; $15.95. Allen Lane; £25*

A mind-changing tour of the universe by one of our leading physicists.

Click here to buy from Amazon.com or Amazon.co.uk

3. Collapse: How Societies Choose to Fail or Survive.
By Jared Diamond. *Viking Adult; 400 pages; $29.95. Allen Lane; £20*

Jared Diamond analyses long-term environmental factors to find out why societies fail.

Click here to buy from Amazon.com or Amazon.co.uk

4. Guns, Germs and Steel: The Fates of Human Societies.
By Jared Diamond. *Norton; 512 pages; $16.95. Vintage; £8.99*

An explanation of how geography and ecology have shaped civilisations.

Click here to buy from Amazon.com or Amazon.co.uk

5. The Elegant Universe: Superstrings, Hidden Dimensions, and the Quest for the Ultimate Theory.
By Brian Greene. *Vintage 464 pages; $15.95 and £8.99*

How superstring theory identifies nature's fundamental building blocks, and what it means for the future of science.

Click here to buy from Amazon.com or Amazon.co.uk

6. The Road to Reality: A Complete Guide to the Laws of the Universe.
By Roger Penrose. *Knopf; 1,136 pages; $40. Jonathan Cape; £30*

An account of the underlying mathematics of the physical universe.

Click here to buy from Amazon.com or Amazon.co.uk

7. A Short History of Nearly Everything.
By Bill Bryson. Broadway; 560 pages; $15.95. Black Swan; £8.99

The irrepressible American takes us on a journey through time and space that explains what we know and how we know it.

Click here to buy from Amazon.com or Amazon.co.uk

8. Nature Cure.
By Richard Mabey. *Chatto and Windus; 244 pages; £15.99*

How the author conquered clinical depression through his love of nature.

Click here to buy from Amazon.com or Amazon.co.uk

9. First Aid Manual.
By St John Ambulance, St Andrews' Ambulance Association and the British Red Cross. *Dorling Kindersley; 288 pages; £11.99*

An official training manual of emergency first-aid procedures.

Click here to buy from Amazon.co.uk

10. New Complete Self-Sufficiency: The Classic Guide for Realists and Dreamers.
By John Seymour. *Dorling Kindersley; 312 pages; £20*

A guide to how you can live the ultimate good life, from ploughing fields to urban gardening to milking cows.

Click here to buy from Amazon.com or Amazon.co.uk

11. The Human Body.
Edited by Martyn Page. *Dorling Kindersley; 448 pages; £9.99*

An easy-to-understand illustrated guide to the anatomy of the human body.

Click here to buy from Amazon.co.uk

12. Royal Horticultural Society New Encyclopedia of Plants and Flowers.
Edited by Christopher Brickell. *Dorling Kindersley; 744 pages; £30*

An authoritative reference work to more than 8,000 garden plants.

Click here to buy from Amazon.co.uk

Global sales from Amazon.com, Amazon.co.uk, Amazon.ca, Amazon.de, Amazon.fr and Amazon.jp from February 26th-March 28th. Prices are quoted from Amazon.com and Amazon.co.uk and are correct as of March 28th.

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Correction: “Anything Else”

Mar 31st 2005
From The Economist print edition

In last week's print issue, we wrote that Kenneth Branagh played Woody Allen's alter ego in “Anything Else” (see article). In fact, it was Jason Biggs. Mr Branagh starred as Mr Allen's neurotic double in “Celebrity”. Apologies all round.

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Obituary

Jim Callaghan

Mar 31st 2005
From The Economist print edition

Lord Callaghan of Cardiff, a British prime minister, died on March 26th, aged 92

Getty Images

IN MAY 1979, after his government had lost a confidence vote in the Commons, James Callaghan confided to an adviser: “There are times, perhaps every 30 years, when there is a sea change in politics...I suspect there is such a sea change, and it is for Mrs Thatcher.”

He was right, and his ministerial career was soon over. It had followed an unusual trajectory. Mr Callaghan was a conspicuously bad chancellor of the exchequer, a plodding home secretary and an undistinguished foreign secretary. Surprisingly, he was then an impressive prime minister, negotiating a way through Britain's worst post-war economic crisis with a steady nerve and sureness of touch. Both, however, deserted him almost entirely during his last few months in Downing Street.

Mr Callaghan first achieved national prominence when he ran, as shadow chancellor, for the leadership of the Labour Party in 1963 after the death of Hugh Gaitskell. Although he came in a poor third, the victor, Harold Wilson, was bound to give him high office when Labour narrowly won power the next year. Mr Callaghan went to the Treasury, but he was never particularly happy or convincing there, sandwiched between superior officials and a prime minister who prided himself on his knowledge of economics. When he resigned in 1967 after a futile three-year fight to stave off devaluation of the pound, his career could have ended.

His skills as a political operator, however, ensured his rehabilitation as home secretary. The authoritarian side of him found the job congenial. He had to send troops to Northern Ireland, and

became a popular and calming figure there. He held back an influx of Kenyan Asians holding British passports, though he thereby pandered shamelessly to the prejudices of Labour's working-class base. Still less gloriously, Mr Callaghan, flaunting his loyalty to the wider Labour movement, ruthlessly undermined the government's attempt to bring legislative order to increasingly chaotic industrial relations. It was an act of sabotage he later came to regret.

When Labour returned to office in 1974, Mr Callaghan, as foreign secretary, was given the task of supposedly renegotiating the terms of Britain's membership of the European Economic Community, as it then was. Suspicious of Europe, but not intellectually hostile, he was perfect for the job. Although not much of substance was achieved, Mr Callaghan made it appear a triumph for his toughness in negotiation and vigorously campaigned for a yes vote in the referendum that followed.

By then, larger difficulties were overwhelming the government. The power of the unions was unbridled, public spending was out of control, inflation was raging at nearly 20% and the pound was in free fall. Physically and morally exhausted, with a tiny minority and a divided cabinet, Wilson quit in March 1976, and Mr Callaghan—at 64, four years older, but fitter in every sense—became prime minister.

A union man

Typically, he believed that only a partnership between the unions and the government could save the country from ruin. He was, above all, a trade unionist. The son of a retired naval chief petty officer, he experienced real poverty when, aged nine, his father died. Although he did well enough at grammar school in Portsmouth to get a job as a tax officer when he was 17, he had neither the funds nor the scholarship to go to university—a fact that sometimes soured his dealings with Oxford-educated colleagues in later life. It was trade unionism that gave him his first chance of advancement, as a senior official of the Inland Revenue Staff Federation.

However, his version of the “social contract” was more rigorous than Wilson's. In a hard-hitting speech to the Labour conference in the autumn of 1976, he renounced the pseudo-Keynesianism that insisted governments could always spend their way out trouble, and paved the way for the government's acceptance of tough IMF terms. Mr Callaghan had patiently united his fractious cabinet around a set of painful measures that, with hindsight, were the forerunner of Thatcherite monetarism.

In the country, his genial unflappability and natural authority were reassuring, as was his apparent ability to keep the unions quiet. In 1978, he might narrowly have won an election. Unaccountably, he decided to hang on until the next year despite signs that the unions could no longer deliver wage restraint. The “winter of discontent” of 1978-79 marked the end of the kind of consensual government that Mr Callaghan believed in. His decency and belief in socialist solidarity were deeply offended by the aggressive picketing of the strikers and, most of all, by the refusal of gravediggers to bury the dead. He was not surprised to lose the election.

Although he lived to see the hegemony of New Labour and relished his role as an elder statesman, he compounded Labour's crisis by staying on as leader for 18 months after losing. In doing so, he inadvertently destroyed the chance of Denis Healey, a fellow right-winger, to succeed him and allowed Tony Benn's constituency Jacobins to spread their terror through the party. James Callaghan was a patriotic, decent man and a skilful politician. However, few political careers have ended in more comprehensive failure.

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Overview

Mar 31st 2005
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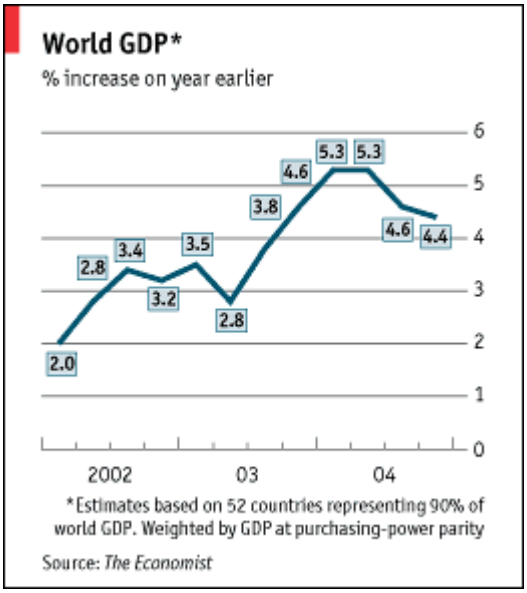
Japan's industrial production grew by 0.5% in the year to February. But thanks to weak exports, it had slumped by 2.1% since January, the sharpest monthly decline in a year. Deflation also tightened its grip. Unemployment rose to 4.7% in February, and household spending fell by 3.1%. In the year to February, consumer prices fell by 0.3%.

America's GDP grew at an annual pace of 3.8% in the last quarter of 2004, according to the third and final estimate. After-tax profits amounted to a record $973 billion in the fourth quarter, at a seasonally-adjusted, annual rate. This represented an increase of 12.5% from the previous quarter, the fastest surge since 2001.

America's consumer prices rose by 3% in the year to February. Excluding the volatile categories of food and energy, they increased by 2.4%. The confidence of America's consumers slipped for the second month in a row in March, according to the Conference Board. But the spikes in energy prices over recent weeks have not disheartened consumers as much as they did last October and November.

Those high energy prices eased this week. The benchmark price of West Texas Intermediate **oil** fell below $53 a barrel on March 30th. America's inventories of crude oil have increased to 314.7m barrels, its largest stockpile in almost three years.

The **euro area's** money supply is growing strongly, though the pace slackened a little last month. M3, a broad measure of the money supply, grew by 6.4% in the year to February, compared with 6.6% in the year to January. Money-supply growth has remained above the ECB's “reference” value of 4.5% since 2001.


World GDP*
% increase on year earlier
6
5
4
3
2
1
0
2.0
2.8
3.4
3.2
3.5
2.8
3.8
4.6
5.3
5.3
4.6
4.4
2002
03
04
*Estimates based on 52 countries representing 90% of world GDP. Weighted by GDP at purchasing-power parity
Source: The Economist

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Output, demand and jobs

Mar 31st 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.5	Q4	+ 0.6	+ 2.9	+ 3.2	+ 4.2	Q3	+ 2.2	Q4	5.1	Feb	5.9
Austria	+ 2.1	Q4	+ 1.1	+ 2.0	+ 2.1	+ 5.4	Dec	+ 2.4	Dec	4.5	Feb	4.4
Belgium	+ 2.6	Q4	+ 1.6	+ 2.1	+ 2.2	+ 4.5	Jan	– 4.2	Jan	12.7	Feb†	12.8
Britain	+ 2.9	Q4	+ 2.9	+ 2.5	+ 2.4	+ 0.1	Jan	+ 3.6	Feb	4.7	Jan††	4.8
Canada	+ 3.0	Q4	+ 1.7	+ 2.9	+ 2.9	+ 3.3	Dec	+ 4.8	Dec	7.0	Feb	7.3
Denmark	+ 2.2	Q4	+ 2.7	+ 1.9	+ 2.1	– 1.4	Jan	+ 7.6	Jan	6.1	Jan	6.6
France	+ 2.4	Q4	+ 3.5	+ 1.9	+ 2.1	+ 2.9	Jan	– 0.7	Jan	10.1	Feb	9.8
Germany	+ 1.5	Q4	– 0.9	+ 1.1	+ 1.6	+ 3.5	Jan	– 1.1	Jan	12.0	Mar§	10.4
Italy	+ 0.8	Q4	– 1.7	+ 1.2	+ 1.6	– 1.5	Jan	– 1.5	Dec	7.8	Sep	8.4
Japan	+ 0.8	Q4	+ 0.5	+ 1.4	+ 1.8	+ 0.5	Feb	+ 2.4	Jan	4.7	Feb	5.0
Netherlands	+ 1.6	Q4	+ 0.1	+ 1.2	+ 1.7	– 0.5	Jan	nil	Dec‡	6.5	Feb**	6.1
Spain	+ 2.7	Q4	+ 3.4	+ 2.6	+ 2.6	+ 1.0	Jan	+ 2.1	Jan	10.3	Jan	11.1
Sweden	+ 2.0	Q4	+ 1.4	+ 2.9	+ 2.7	– 0.5	Jan	+ 4.3	Feb	5.7	Feb†	6.0
Switzerland	+ 1.2	Q4	– 0.3	+ 1.6	+ 1.8	+ 4.7	Q4	– 3.1	Jan	4.1	Feb†	4.2
United States	+ 3.9	Q4	+ 3.8	+ 3.7	+ 3.2	+ 3.5	Feb	+ 4.9	Jan	5.4	Feb	5.6
Euro area	+ 1.8	Q4	+ 0.8	+ 1.6	+ 1.9	+ 2.2	Jan	– 0.6	Jan	8.8	Jan	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 3.6	Q4	+ 2.5	na	na	– 0.7	Feb	+ 4.8	Jan	9.2	Feb†	9.0
Greece	+ 4.2	Q4	na	na	na	– 1.1	Jan	+ 2.0	Dec	10.5	Jun	9.6
Iceland	+ 3.8	Q4	na	na	na	na		na		3.0	Jan†	3.7
Ireland	+ 5.8	Q3	na	na	na	+ 4.8	Jan	+ 5.3	Jan	4.2	Feb	4.5
Luxembourg	+ 2.1	2003	na	na	na	+ 5.9	Dec	– 2.5	Jan	4.7	Feb	4.3
New Zealand	+ 3.6	Q4	+ 2.4	na	na	+ 4.5	Q3	+ 6.8	Q4	3.6	Q4	4.5
Norway	+ 3.2	Q4	+ 6.1	na	na	– 4.0	Jan	+ 2.5	Jan	3.7	Mar	3.9
Portugal	+ 0.6	Q4	– 1.1	na	na	– 2.3	Jan	+ 4.7	Jan	7.1	Q4†	6.5

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Nov-Jan; claimant count rate 2.6% in Feb. §EU harmonised rate 9.6% in Jan. **Dec-Feb.

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Prices and wages

Mar 31st 2005
From The Economist print edition

% change on year ago

	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2005	2006	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.6	Q4	+ 2.4	+ 2.6	+ 2.6	+ 8.2	Q4	– 1.1	+ 3.0	Q4	+ 6.0
Austria	+ 2.8	Feb	+ 1.4	+ 2.0	+ 1.6	+ 4.6	Feb	+ 1.8	+ 2.1	Feb	+ 2.2
Belgium	+ 3.1	Mar	+ 1.1	+ 1.8	+ 1.7	– 1.1	Feb	+ 2.4	+ 2.3	Jan	+ 1.9
Britain	+ 1.6	Feb*	+ 1.3	+ 1.8	+ 1.8	+ 2.8	Feb	+ 1.6	+ 4.4	Jan†	+ 4.8
Canada	+ 2.1	Feb	+ 0.7	+ 1.9	+ 2.1	+ 2.3	Feb	– 1.9	+ 1.8	Jan	+ 4.3
Denmark	+ 1.3	Feb	+ 0.9	+ 1.4	+ 1.7	+ 3.5	Feb	– 0.1	+ 2.8	Q4	+ 3.5
France	+ 1.6	Feb	+ 1.8	+ 1.7	+ 1.5	+ 3.1	Feb	nil	+ 3.0	Q4	+ 2.7
Germany	+ 1.8	Mar	+ 1.1	+ 1.3	+ 1.1	+ 3.8	Feb	nil	+ 1.2	Jan	+ 1.9
Italy	+ 1.9	Feb	+ 2.3	+ 2.0	+ 1.9	+ 4.7	Feb	+ 0.1	+ 3.3	Dec	+ 2.6
Japan	– 0.3	Feb	nil	nil	+ 0.3	+ 1.3	Feb	nil	– 0.6	Jan	+ 1.2
Netherlands	+ 1.6	Feb	+ 1.2	+ 1.2	+ 1.4	+ 4.7	Jan	– 0.6	+ 1.0	Feb	+ 1.9
Spain	+ 3.4	Mar	+ 2.1	+ 2.8	+ 2.6	+ 4.9	Feb	+ 0.7	+ 2.6	Q4	+ 3.3
Sweden	+ 0.7	Feb	– 0.3	+ 1.0	+ 1.7	+ 2.8	Feb	– 2.3	+ 2.0	Dec	+ 2.8
Switzerland	+ 1.4	Feb	+ 0.1	+ 1.1	+ 1.2	+ 1.7	Feb	– 0.1	+ 1.4	2003	+ 1.8
United States	+ 3.0	Feb	+ 1.7	+ 2.5	+ 2.4	+ 4.7	Feb	+ 2.0	+ 2.5	Feb	+ 1.6
Euro area	+ 2.1	Feb	+ 1.6	+ 1.8	+ 1.6	+ 3.9	Jan	+ 0.3	+ 2.2	Q4	+ 2.1
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 0.2	Feb	+ 0.1	na	na	+ 2.2	Feb	– 1.7	+ 3.0	Q4	+ 4.2
Greece	+ 3.1	Feb	+ 2.5	na	na	+ 2.9	Dec	+ 2.1	na		na
Iceland	+ 4.7	Mar	+ 1.8	na	na	+ 7.0	Mar	+ 2.6	+ 6.7	Feb	+ 3.3
Ireland	+ 2.2	Feb	+ 1.7	na	na	– 0.4	Feb	– 6.6	+ 5.1	Q4	+ 4.5
Luxembourg	+ 2.2	Feb	+ 2.0	na	na	+18.2	Jan	– 0.2	– 0.3	Dec	na
New Zealand	+ 2.7	Q4	+ 1.6	na	na	+ 3.4	Q4	– 0.1	+ 2.5	Q4	+ 2.3
Norway	+ 1.0	Feb	– 1.7	na	na	+14.4	Feb	– 1.3	+ 3.9	Q4	+ 3.9
Portugal	+ 2.2	Feb	+ 2.1	na	na	+ 4.0	Feb	– 0.5	+ 0.6	Jan	nil

*RPI inflation rate 3.2% in Feb. †Nov-Jan.

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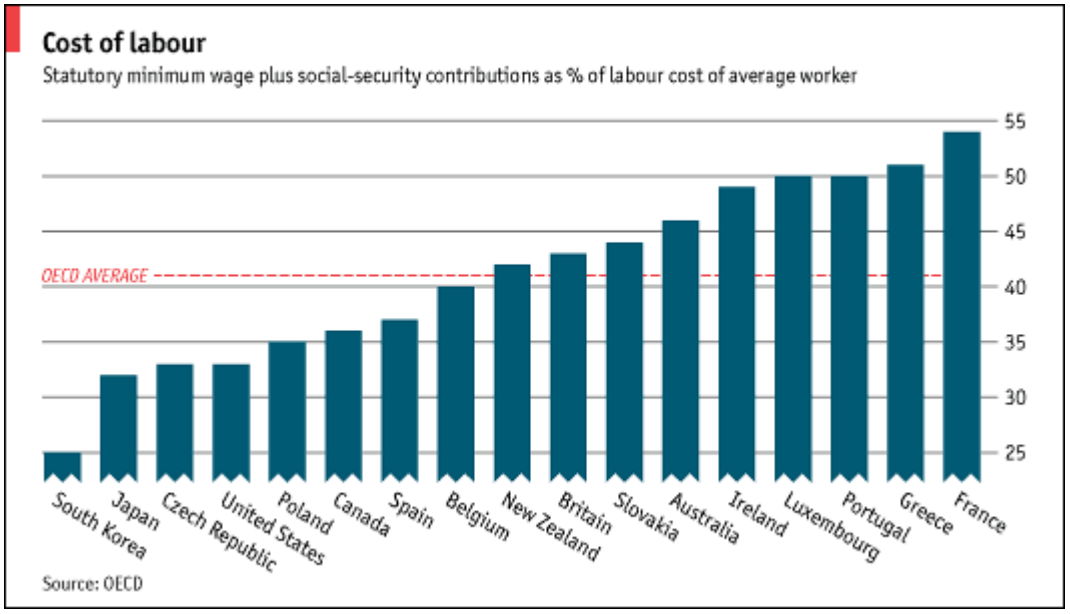
Cost of labour

Mar 31st 2005
From The Economist print edition



Low-skilled workers in France are more expensive, relative to the average worker, than in other OECD economies. France's statutory minimum wage and its mandatory social-security contributions amount to 54% of the labour costs of the average worker. In America, by contrast, low-wage workers are relatively cheap. The minimum wage plus social-security contributions reach only 33% of the cost of the average worker.

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Money and interest rates

Mar 31st 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Mar 30th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 2.5	+ 9.5	Jan	5.91	5.52	5.60	5.71	5.49	6.63
Britain	+ 5.9	+ 9.3	Feb	4.95	4.31	4.70	4.72	4.74	5.23
Canada	+13.7	+11.1	Feb	2.56	2.02	3.23	4.47	4.30	5.79
Denmark	+13.8	+10.3	Feb	2.20	2.10	2.49	3.73	4.03	5.02
Japan	+ 4.0	+ 1.9	Feb	0.02	0.03	0.10	1.34	1.44	1.42
Sweden	+ 2.5	+ 4.3	Feb	1.97	2.12	2.15	3.74	4.18	3.56‡
Switzerland	- 5.5	+ 1.4	Feb	0.77	0.25	1.19	2.24	2.40	2.15
United States	+ 4.1	+ 5.5	Feb	2.90	1.04	3.84	4.55	3.83	5.50
Euro area†	+ 9.9	+ 6.4	Feb	2.15	1.96	2.50	3.64	3.88	3.94

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. Benchmarks: US 30-year 4.80%, Japan No. 268 1.35%. Central bank rates: US fed funds 2.75%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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The Economist commodity price index

Mar 31st 2005
From The Economist print edition

2000=100

	Mar 22nd	Mar 29th*	% change on one month	% change on one year
Dollar index				
All items	138.3	135.6	+ 0.6	– 3.9
Food	132.8	129.0	+ 0.7	–10.7
Industrials				
All	145.3	144.2	+ 0.4	+ 5.3
Nfa†	131.5	132.8	+ 1.3	– 7.8
Metals	152.9	150.4	nil	+13.1
Sterling index				
All items	110.4	109.7	+ 3.0	– 6.4
Euro index				
All items	96.9	97.1	+ 2.7	– 9.4
Yen index				
All items	134.7	135.3	+ 3.5	– 2.3
Gold				
$ per oz	431.13	426.55	– 1.3	+ 1.4
West Texas Intermediate				
$ per barrel	54.30	54.20	+ 5.0	+49.7

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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Stockmarkets

Mar 31st 2005
From The Economist print edition

Market indices

	Mar 30th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,083.6	4,255.8	4,033.3	– 1.9	– 4.0	+ 0.8	– 0.6
Austria (ATX)	2,635.6	2,781.6	2,415.0	+ 1.2	– 5.2	+ 8.4	+ 3.4
Belgium (Bel 20)	3,125.0	3,153.1	2,958.8	+ 1.8	–15.1	+ 6.6	+ 1.6
Britain (FTSE 100)	4,900.7	5,060.8	4,783.6	– 0.2	–29.3	+ 1.8	– 0.2
Canada (Toronto Composite)	9,484.3	9,927.2	9,006.2	– 0.7	–16.7	+ 2.6	+ 1.0
Denmark (KBX)	280.1	287.4	257.8	+ 0.4	– 7.2	+ 8.6	+ 3.5
France (SBF 250)	2,812.5	2,844.1	2,633.6	+ 0.8	–35.9	+ 6.8	+ 1.8
(CAC 40)	4,064.6	4,108.0	3,816.1	+ 0.8	–41.3	+ 6.4	+ 1.4
Germany (DAX)	4,347.5	4,428.1	4,201.8	+ 0.7	–46.1	+ 2.1	– 2.6
Italy (S&P/MIB)*	32,206.0	32,371.0	30,645.0	+ 0.9	–35.7	+ 4.2	– 0.6
Japan (Nikkei 225)	11,565.9	11,966.7	11,238.4	– 1.5	–70.3	+ 0.7	– 3.9
(Topix)	1,169.1	1,203.3	1,132.2	– 2.1	–59.5	+ 1.7	– 3.0
Netherlands (AEX)	369.0	379.8	350.1	nil	–47.4	+ 6.0	+ 1.1
Spain (Madrid SE)	995.1	1,025.8	950.9	+ 0.4	–13.2	+ 3.8	– 1.0
Sweden (Affarsvarlden Gen)	233.0	237.2	218.9	– 0.1	–41.8	+ 5.3	– 0.7
Switzerland (Swiss Market)	5,932.9	6,014.6	5,669.6	+ 0.1	–29.5	+ 4.2	– 0.8
United States (DJIA)	10,540.9	10,940.6	10,368.6	+ 0.8	–10.1	– 2.2	– 2.2
(S&P 500)	1,181.4	1,225.3	1,163.8	+ 0.8	–22.7	– 2.5	– 2.5
(NASDAQ Comp)	2,005.7	2,152.2	1,973.9	+ 0.8	–60.3	– 7.8	– 7.8
Europe (FTSEurofirst 300)†	1,084.8	1,107.6	1,038.6	+ 0.6	–36.4	+ 4.1	– 0.7
Euro area (FTSE Euro 100)†	935.6	952.4	894.4	+ 0.7	–39.7	+ 3.8	– 1.0
World (MSCI)‡	1,148.4	1,193.0	1,128.2	+ 0.1	–20.7	– 1.8	– 1.8
World bond market (Citigroup)††	645.5	662.3	642.6	– 0.2	– 2.5	– 3.1	– 3.1

*New index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

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	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2005	2006	Exchange rate trade-weighted† 1990=100 Mar 30th	year ago	Currency units per $ Mar 30th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2004‡
Australia	− 18.2	Jan	− 39.4	Q4	− 5.7	− 5.3	88.5	88.4	1.29	1.31	2.44	1.68	1.20	+ 0.7
Austria	+ 0.1	Jan	− 1.4	Jan	− 0.8	− 0.9	105.0§	104.6	0.77	0.81	1.45	–	0.72	− 1.5
Belgium	+ 18.4	Jan	+ 11.7	Sep	+ 3.4	+ 3.5	105.8§	105.3	0.77	0.81	1.45	–	0.72	− 0.1
Britain	−106.4	Jan	− 49.0	Q4	− 2.7	− 2.8	103.5	105.1	0.53	0.54	–	0.69	0.49	− 3.2
Canada	+ 51.0	Jan	+ 23.4	Q4	+ 2.1	+ 1.6	94.1	87.4	1.22	1.31	2.29	1.58	1.13	+ 1.1
Denmark	+ 9.5	Jan	+ 5.9	Dec	+ 2.4	+ 2.3	107.0	106.3	5.75	6.06	10.8	7.45	5.35	+ 0.9
France	− 12.7	Jan	− 10.3	Jan	− 0.5	− 0.4	108.6§	107.9	0.77	0.81	1.45	–	0.72	− 3.7
Germany	+196.0	Jan	+103.2	Jan	+ 2.9	+ 3.0	106.5§	105.8	0.77	0.81	1.45	–	0.72	− 3.9
Italy	− 1.1	Jan	− 16.7	Jan	− 1.0	− 1.1	77.7§	77.2	0.77	0.81	1.45	–	0.72	− 2.9
Japan	+129.5	Jan	+169.2	Jan	+ 3.5	+ 3.4	133.3	141.0	107	104	202	139	–	− 6.5
Netherlands	+ 36.8	Jan	+ 24.1	Q4	+ 3.4	+ 3.3	105.4§	104.8	0.77	0.81	1.45	–	0.72	− 2.9
Spain	− 78.0	Jan	− 49.3	Dec	− 4.2	− 4.2	78.0§	77.7	0.77	0.81	1.45	–	0.72	− 1.1
Sweden	+ 22.8	Feb	+ 28.0	Q4	+ 6.8	+ 6.1	82.1	79.9	7.04	7.54	13.3	9.13	6.56	+ 0.5
Switzerland	+ 7.3	Feb	+ 44.7	Q3	+12.1	+11.7	113.1	111.2	1.20	1.27	2.25	1.55	1.11	− 1.6
United States	−678.1	Jan	−665.9	Q4	− 5.9	− 5.7	91.9	94.8	–	–	1.88	1.30	0.93	− 4.4
Euro area	+ 86.4	Jan	+ 46.1	Jan	+ 0.6	+ 0.6	93.1	90.1	0.77	0.81	1.45	–	0.72	− 2.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 13.3	Jan	+ 8.7	Jan	na	na	82.6§	82.2	0.77	0.81	1.45	–	0.72	+ 2.3
Greece	− 32.1	Jan	− 11.5	Jan	na	na	60.5§	60.3	0.77	0.81	1.45	–	0.72	− 5.3
Iceland	− 0.6	Jan	− 1.0	Q4	na	na	99.1**	93.5	58.9	72.2	111	76.4	54.8	+ 0.1
Ireland	+ 42.0	Jan	− 0.8	Q4	na	na	96.5§	95.5	0.77	0.81	1.45	–	0.72	+ 0.2
Luxembourg	− 4.5	Dec	+ 2.3	Q3	na	na	105.8§	105.3	0.77	0.81	1.45	–	0.72	− 0.4
New Zealand	− 2.8	Feb	− 6.2	Q4	na	na	109.2	103.1	1.35	1.50	2.54	1.75	1.26	+ 2.9
Norway	+ 35.1	Feb	+ 34.4	Dec	na	na	99.2	95.3	6.19	6.87	11.7	8.02	5.76	+ 8.2
Portugal	− 19.1	Dec	− 13.6	Jan	na	na	93.3**	93.4	0.77	0.81	1.45	–	0.72	− 2.9

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD estimate. ††New series.
**IMF, November average.

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Ten-year government-bond yields

Mar 31st 2005
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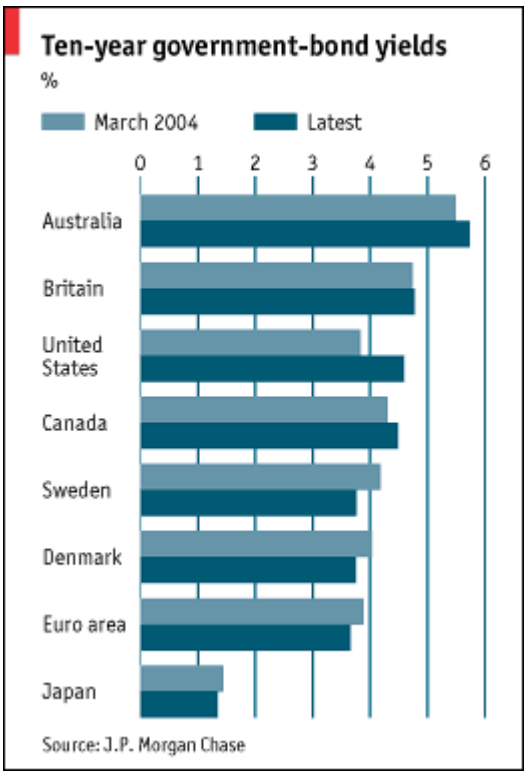

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Overview

Mar 31st 2005
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In **Argentina**, GDP grew by 8.4% in the year to the fourth quarter. In **Chile**, the economy expanded by 7.3% over the same period.

Industrial production fell by 7.3% in **South Korea** in the year to February. In the **Philippines**, it rose by 5.5% in the year to January.

South Africa ran a current-account deficit of 3.2% of GDP in 2004, the highest since 1982.

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Graduate emigration

Mar 31st 2005
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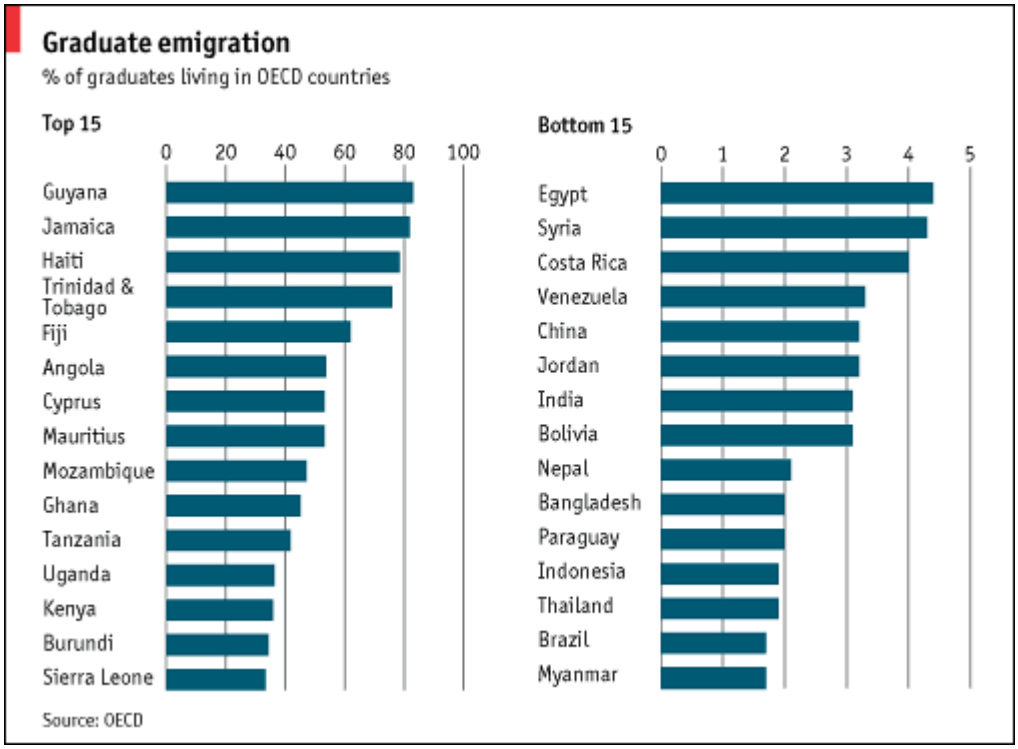

Guyana loses a greater proportion of its high-skilled workforce to OECD countries than any other non-member nation, the OECD reports. It finds that 83% of the country's graduates now live in an OECD country. Size is the best predictor of emigration. Smaller countries, especially African and island nations, send a higher proportion of their graduates to the OECD. Big ones, such as Bangladesh, keep most of theirs.

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Economy

Mar 31st 2005
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	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.5	Q4	+ 8.9	Jan	+ 3.9	Feb	+51.0	Feb	+45.9	2003	609.9	Dec
Hong Kong	+ 7.1	Q4	+ 5.0	Q4	+ 0.8	Feb	−12.4	Jan	+16.0	Q4	123.9	Feb
India	+ 6.2	Q4	+ 8.0	Jan	+ 4.4	Jan	−25.0	Feb	+ 3.5	Q3	129.8	Feb
Indonesia	+ 6.7	Q4	− 2.3	Aug	+ 7.2	Feb	+24.5	Jan	+ 4.0	Q3	34.8	Jan
Malaysia	+ 5.6	Q4	+ 2.9	Jan	+ 2.4	Feb	+21.7	Jan	+15.1	Q4	68.8	Jan
Philippines	+ 5.4	Q4	+ 5.5	Jan	+ 8.5	Feb†	− 0.2	Jan	+ 4.4	Sep	13.6	Feb
Singapore	+ 6.5	Q4	−10.2	Feb	nil	Feb	+15.6	Feb	+27.9	Q4	113.9	Feb
South Korea	+ 3.3	Q4	− 7.3	Feb	+ 3.3	Feb	+30.3	Feb	+27.3	Feb	202.1	Feb
Taiwan	+ 3.3	Q4	−13.3	Feb	+ 1.9	Feb	+ 5.6	Feb	+19.0	Q4	246.6	Feb
Thailand	+ 5.1	Q4	+ 3.9	Jan	+ 2.5	Feb	+ 0.2	Jan	+ 5.5	Jan	47.8	Jan
Argentina	+ 8.4	Q4	+ 4.8	Feb	+ 8.1	Feb	+12.3	Jan	+ 3.0	Q4	20.8	Feb
Brazil	+ 4.9	Q4	+ 5.9	Jan	+ 7.4	Feb	+35.1	Feb	+11.7	Feb	58.5	Feb
Chile	+ 7.3	Q4	+ 5.3	Jan	+ 2.1	Feb	+ 9.1	Feb	+ 1.4	Q4	15.5	Feb
Colombia	+ 4.3	Q4	+ 5.2	Dec	+ 5.3	Feb	+ 0.9	Dec	− 1.4	Q3	13.7	Feb
Mexico	+ 4.9	Q4	+ 3.1	Jan	+ 4.3	Feb	− 9.5	Jan	− 8.7	Q4	65.0	Jan
Peru	+ 5.2	Jan	+10.6	Dec	+ 1.7	Feb	+ 2.9	Jan	− 0.1	Q4	13.3	Feb
Venezuela	+11.2	Q4	+13.2	Dec	+16.9	Feb	+22.1	Q4	+14.6	Q4	18.4	Dec
Egypt	+ 4.7	Q4	+ 3.3	2004‡	+11.4	Dec	− 8.1	Q3	+ 4.1	Q3	14.3	Dec
Israel	+ 4.8	Q4	+ 6.4	Jan	+ 0.8	Feb	− 7.0	Feb	+ 0.5	Q4	27.1	Feb
South Africa	+ 4.7	Q4	+ 7.8	Dec	+ 2.6	Feb	− 2.4	Jan	− 7.0	Q4	13.9	Feb
Czech Republic	+ 4.3	Q4	+ 7.2	Jan	+ 1.7	Feb	− 0.8	Jan	− 5.6	Q4	27.8	Feb
Hungary	+ 3.8	Q4	+ 2.8	Jan	+ 3.2	Feb	− 2.9	Q4	− 8.8	Q4	17.6	Feb
Poland	+ 3.9	Q4	+ 2.1	Feb	+ 3.6	Feb	− 6.1	Dec	− 3.6	Dec	39.6	Jan
Russia	+ 6.7	Q4	+ 5.1	Feb	+12.8	Feb	+91.1	Jan	+58.2	Q4	130.4	Feb
Turkey	+ 6.3	Q4	+ 6.8	Jan	+ 8.7	Feb	−35.2	Jan	−16.1	Jan	37.1	Jan
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 5.8	Q4	+ 6.8	Feb	+ 4.5	Feb	− 2.5	Jan	− 1.4	Q4	1.7	Jan
Latvia	+ 8.6	Q4	− 3.1	Jan	+ 6.9	Feb	− 2.8	Dec	− 1.7	Dec	1.8	Jan
Lithuania	+ 6.7	Q4	na		+ 3.3	Feb	− 3.0	Jan	− 1.6	Q4	3.4	Jan
Slovakia	+ 5.8	Q4	+ 5.5	Jan	+ 2.7	Feb	− 1.5	Jan	− 1.2	Nov	14.3	Jan
Slovenia	+ 4.3	Q4	+ 6.3	Dec	+ 2.6	Feb	− 1.5	Jan	− 0.2	Jan	8.8	Dec
Pakistan	+ 6.4	2004‡	+28.3	Nov	+ 9.9	Feb	− 5.2	Jan	− 0.9	Q4	10.5	Feb
Saudi Arabia	+ 7.2	2003	na		+ 0.6	Dec	+59.1	2003	+28.0	2003	24.7	Jan

*Excluding gold, except Singapore; IMF definition. †New series ‡Year ending June, new series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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Financial markets

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	Currency units per $ Mar 30th	Currency units per $ year ago	Currency units per £ Mar 30th	Interest rates short-term % a year	Stockmarkets Mar 30th	% change on one week	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
China	8.28	8.28	15.6	4.98	1,230.1	– 2.4	– 7.5	– 7.5
Hong Kong	7.80	7.79	14.7	2.79	13,425.8	– 1.3	– 5.7	– 6.0
India	43.7	43.4	82.4	5.35	6,381.4	– 1.1	– 3.4	– 3.9
Indonesia	9,505	8,564	17,900	7.58	1,065.1	– 6.7	+ 6.5	+ 4.0
Malaysia	3.80	3.80	7.16	2.82	877.8	– 0.4	– 3.3	– 3.3
Philippines	54.7	56.2	103.0	7.25	1,951.4	– 2.4	+ 7.1	+ 9.9
Singapore	1.65	1.68	3.11	2.06	2,123.2	– 1.0	+ 2.8	+ 1.6
South Korea	1,024	1,146	1,927	3.54	955.5	– 1.2	+ 6.6	+ 7.9
Taiwan	31.8	33.0	59.8	1.40	5,958.0	– 1.0	– 3.0	– 3.2
Thailand	39.3	39.3	74.0	2.64	672.8	– 2.9	+ 0.7	– 0.4
Argentina	2.91	2.85	5.49	4.56	1,401.1	+ 2.7	+ 1.9	+ 3.9
Brazil	2.69	2.92	5.06	19.25	26,469.0	+ 0.8	+ 1.0	– 0.1
Chile	586	617	1,104	3.00	9,387.0	+ 0.8	+ 4.7	– 0.7
Colombia	2,368	2,682	4,458	7.44	4,601.2	– 3.0	+ 5.9	+ 5.2
Mexico	11.2	11.2	21.2	9.57	12,653.4	– 1.6	– 2.0	– 2.9
Peru	3.26	3.46	6.14	2.94	4,155.7	– 0.9	+ 12.0	+ 12.6
Venezuela	2,927§	3,105§	5,512	12.73	28,891.0	– 4.4	– 3.5	– 15.0
Egypt	5.80	6.19	10.92	10.76**	32,649.9	– 9.9	+ 32.8	+ 39.0
Israel	4.37	4.53	8.23	1.00	660.7	– 0.3	+ 2.6	+ 1.5
South Africa	6.30	6.32	11.9	7.65	13,176.1	– 0.9	+ 4.1	– 6.8
Czech Republic	23.2	26.7	43.7	2.07	1,137.2	– 0.7	+ 10.2	+ 6.1
Hungary	191	202	359	7.70	16,772.3	nil	+ 13.8	+ 7.7
Poland	3.16	3.86	5.96	6.09	27,023.1	+ 0.8	+ 1.5	– 3.9
Russia	27.9	28.5	52.4	13.00	665.3‡	+ 0.5	+ 8.8	+ 8.3
Turkey	1.36	1.31	2.57	17.60	24,600.9	+ 0.7	– 1.5	– 2.6
EMF (MSCI)*	1.00	1.00	1.88	na	540.1	– 1.3	– 0.4	– 0.4
EMBI+†	1.00	1.00	1.88	na	323.7	+ 0.5	– 1.8	– 1.8

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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